

JPRS-USA-87-005

8 APRIL 1987

USSR Report

USA: ECONOMICS, POLITICS, IDEOLOGY



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No 1, January 1987

[Translation of the Russian-language monthly journal SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA published in Moscow by the Institute of U.S. and Canadian Studies, USSR Academy of Sciences.]

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PUBLICATION DATA

English title : USA: ECONOMICS, POLITICS, IDEOLOGY
No 1, January 1987

Russian title : SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA

Author (s) :

Editor (s) : V.M. Berezhev

Publishing House : Izdatelstvo Nauka

Place of publication : Moscow

Date of publication : January 1987

Signed to press : 17 December 1986

Copies : 32,000

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politika, ideologiya", 1987

U.S. TRANSNATIONAL BANKS IN THE 80'S

Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 1, Jan 87
(signed to press 17 Dec 86) pp 28-37

[Article by A.M. Belov: "U.S. Transnational Banks in the 80's"]

[Text] The internationalization of the credit and finance sphere, an objective result of the internationalization of production and capital and the expansion and diversification of international economic relations, has become an important factor in the development of the entire world capitalist economic system. Analyzing the international expansion of banking monopolies at the beginning of the 20th century, V.I. Lenin wrote: "We have seen the rapid growth of the dense network of channels encompassing an entire country, centralizing all capital and monetary income and turning thousands and thousands of separate economic units into a single national capitalist economy and then a world capitalist economy."¹

The most significant and active role in the overseas expansion of loan capital at this time is being played by U.S. banks, whose strong domestic position has rapidly turned them into powerful credit and financial centers. Their activities are having an increasingly perceptible effect on the monetary, currency and overall economic policies of various countries and are contributing to the continued exacerbation of inter-imperialist conflicts.

Several fundamental scientific studies by Soviet economists analyzing various aspects of the foreign economic activity of the largest banking monopolies, especially American ones, have been published in recent years.² In the 1980's, however, the strategy and tactics of transnational banks (TNB's) have undergone perceptible changes in connection with a number of distinctive features of the capitalist economy's development during this period and with the effects of Reagan Administration economic policy.

More Active Foreign Expansion: Some Quantitative Parameters

One of the most important factors in the heightened international expansion of U.S. banks in the 1970's and 1980's has been the need for comprehensive credit and financial services for American industrial TNC's with rapidly expanding global business operations. The situation has also been affected by the earlier changes in the capitalist monetary system in connection with the institution of the convertibility of the main currencies, the increased strength of the dollar as the "key" reserve currency, the development of the Eurodollar market, etc.

Although the average annual increase in the income of the 13 largest American banks from 1970 to 1975 was 34 percent, their profits from operations in the national market increased by only 0.7 percent during this period.³ The beginning of the 1970's was also the time of the more active development of the U.S. banks' network of overseas branches (see Table 1).

Table 1: Development of U.S. Banks' Network of Overseas Branches

<u>Categories</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Number of banks with overseas branches	79	126	159	159	162	166	163*
Number of overseas branches	532	762	787	841	900	892	905*
Total assets of overseas branches, \$ billions	50.0	145.3	310.3	343.3	341.3	331.1	320**

* Preliminary data.

** Estimate.

Source: "Statistical Abstract of the United States 1986," p 496.

The network grew more slowly in the second half of the 1970's, and especially in the early 1980's. By this time most of the largest U.S. banks already had a vast network of overseas subdivisions and were firmly ensconced in the credit and financial sphere of the national economies of many developed capitalist countries and developing states.

In other words, the development of the foreign expansion of U.S. TNB's was mainly of the extensive type before the middle of the 1970's, reflected in the quantitative growth of overseas subdivisions and in their geographic diversification, and it was consistent with the internationalization of capital "in breadth." Later, however, the internationalization of capital "in depth" was the prevailing tendency, in connection with the TNB's vigorous infiltration of the national monetary systems of host countries and their attempts to take over the functions of local banks. This was accompanied by the expansion and complication of the operations of TNB subdivisions in world financial centers. It is indicative that although the number of overseas branches remained relatively stable in the second half of the 1970's, their assets increased by an average of 18 percent a year from 1975 to 1982.⁴ The profit margin on international operations has been around 50 percent for the largest American TNB's in recent years.

Within a relatively short period of time the American banks were firmly established in many parts of the world (see Table 2). The obligations of foreign debtors to U.S. banks increased from 20.7 billion dollars to 398.6 billion, almost 20-fold, within 11 years, from 1973 to 1984.

Distinctive Features of Strategy in the 1980's

In the 1980's the activities of American TNC's have been influenced by several different factors of considerable importance from the standpoint of the nature and possibility of their further development.

First of all, the relatively more rapid development of the U.S. economy in comparison to the economies of other capitalist countries, which were more seriously injured by the economic crisis, was accompanied by the extensive renewal of fixed capital, which, in combination with the growing federal budget deficits, has maintained the demand for credit within the country. Another factor was the temporary slump in the investment activity of American TNC's in Western Europe and other parts of the world. Besides this, the financial difficulties of some large borrowers, especially energy and oil companies and refineries, put a much greater strain on the American credit market in the first half of the 1980's. This was reflected in the rapid accumulation of "problem" credits--i.e., those whose timely repayment was in doubt. According to the most conservative estimates, they represented 3 percent of the total credit portfolio of the 25 largest U.S. banks at the end of 1983, and their rapid growth continued in subsequent years.

In the second place, this was a time of general difficulties in international banking. Overhead costs kept rising while the bank margin--i.e., the difference between the value of deposits and loans, constituting the main source of bank profits--constantly declined. There were also qualitative changes in the banks' clients, who were now more inclined to make use of their accumulations to generate maximum profits instead of passively accumulating their savings, as they had during the inflationary 1970's. The non-banking U.S. financial institutions, which had begun penetrating some spheres of traditional bank operations in the 1960's, responded quickly to the increased needs of investors. There was also stronger competition from foreign banks, whose presence in the United States was rapidly being compounded.

In the third place, there were disparities in the intergovernmental transactions of capitalist countries and instability in their monetary relations. The dramatic fluctuation of currency exchange rates, especially the rate of the dollar, and interest rates, by which U.S. monetary policy is guided, heightened the risk for participants in international economic relations and destabilized these relations to some extent. Besides this, the increasing debts of the developing countries reduced the sphere of the profitable use of bank credit resources. According to the chairman of the board of Security Pacific, one of the largest American TNC's, international banking assets could no longer be augmented through broader geographic expansion, because "the group of new acceptable borrowers is quite restricted, and the current borrowers have already reached their credit limits."⁶

Doubts about the solvency of several developing countries and the fear that the curtailment of their payments could cause a crisis in the international financial system dramatically reduced the volume of available credit. In 1983 the U.S. banks extended credit to developing countries in the amount of only 4 billion dollars, as compared to 11 billion in 1982 and 19 billion in

1981. Furthermore, most of the new credits were extended by the largest American TNB's and were intended mainly for the refinancing of debts.

Table 2: Obligations of Foreign Debtors to American Banks, in billions of dollars at end of year

Debtors	1973*	1975*	1980	1981	1982	1983	1984
Total	20,073	50,231	205,395	251,689	355,705	391,326	398,611
Western Europe	4,070	9,078	32,255	49,362	85,684	91,974	97,006
Canada	1,955	2,817	4,810	9,293	13,778	16,341	16,154
Latin American & Caribbean	5,900	20,532	93,092	138,347	188,069	205,426	207,543
Asia	8,224	16,157	39,140	49,951	61,052	68,050	66,468
Africa	488	1,228	2,477	3,503	5,346	6,754	6,613
Other countries	386	609	1,250	1,476	2,107	2,918	3,436
Non-financial international & regional organizations	--	--	178	156	168	264	774

* Data for short-term obligations.

Source: FEDERAL RESERVE BULLETIN for corresponding years.

In the fourth place, the international positions of American TNB's underwent negative changes at the turn of the decade. Throughout the 1970's their rivals in Western Europe and Japan had made use of the intensive concentration and centralization of capital in their own countries to reinforce their international positions by entering international capital markets and expanding and diversifying their operations. This tendency became particularly apparent in the beginning of the 1980's in connection with the vigorous expansion of Japanese banks.

For example, American banks represented 37 percent of the 500 largest banks in the capitalist world in 1970, but the figure had dropped to 20.4 percent in 1983. Their share of deposits decreased from 38.3 to 15.5 percent during the same period.⁷ Although the giant Citicorp still heads the list of the 10 world banking leaders, the positions of American TNB's as a whole have grown weaker. They are being crowded out by Japanese banks. In 1983 four new Japanese banks entered the ranks of the "top 10." Now Japan already accounts for half the names on this prestigious list. What is more, the assets of Dai Ichi Bank, totaling 157.7 billion dollars, are surpassed by Citicorp assets by only 9.5 billion,⁸ and Bank of America, which was second on the list for a long time, fell to ninth place in 1985.

These tendencies forced the largest U.S. TNB's to thoroughly analyze the current situation and reassess all of the traditional forms, methods and guidelines of their activity and to develop their own system for the strategic planning of operations, giving more thought to the more distant future instead of focusing only on immediate profit increases.

Although the slower growth of foreign expansion was involuntary to some extent, it can also be viewed as an attempt by the TNB's to "get their bearings" and adapt to the new situation by developing a new operational strategy and tactics. Although they remained active in international banking, many of the largest U.S. banks began to pay much more attention to the national credit market. And whereas they had previously used domestic profits for broader foreign expansion, now they could use their international "empire" to reorganize and reinforce their "home" base. This is attested to, for example, by the consistent decrease in the amount of international bank credit extended by U.S. banks after 1982. Their credits to foreign borrowers in 1984 were 34 billion dollars, or 9.5 percent, below the 1983 figure. According to a special Morgan Guaranty Trust study, the U.S. TNB's were responsible for most of the decline in the growth rates of total international banking credits, from 23 percent in 1981 to 7 percent in 1984,⁹ and the proportional amount of American international credits was 2.6 percent smaller in 1984 than in 1983 (see Table 3).

At the same time, many banks began rebuilding their organizational structures. This applies primarily to their existing network of overseas branches, which had lost their previous effectiveness under the influence of negative developments in world markets. Bank of America's decision to close or sell approximately 35 subdivisions in Latin America is an example of this. As a result, the total number of these branches in the region in 1985 was just over half of the 1981 number. Besides this, in the last 2 or 3 years Bank of America got rid of around 25 other subdivisions in other parts of the world. The plans for the overall reorganization of its overseas network also include the reduction of the number of employees of the international subdivisions of this giant TNB by around 2,000.¹⁰

It must be stressed that these trends are not an indication of the "departure" of the American TNB's from international markets. It is more likely that they will do the opposite. By getting rid of their unprofitable subdivisions and the operational costs connected with them, they will accumulate the necessary potential for the penetration of new and promising spheres of international banking, with a view to securing strong positions in the future.

To strengthen their competitive position, the American TNB's are developing a new strategy for the attraction and use of finances and are striving for the maximum use of opportunities to combine their capital with the capital of industrial corporations on the international level. To this end, the transnational banks' overseas affiliates specializing directly in operations with the assets of industrial enterprises and various kinds of stock transactions have been more active.

The internationalization of production and capital dictates the need to supplement traditional deposit and credit services with a broad range of institutional issuance operations. This means of financing a large group of international clients has been developing quickly and already accounts for twice as much activity as traditional credit operations. For example, whereas the amount of syndicate credits (i.e., those extended jointly by several banks) decreased from 91 billion dollars in 1982 to 54 billion in 1984,

operations with securities increased during the same period from 71 billion dollars to 108 billion.¹¹

Another type of operation--the leasing of machines and equipment or of whole enterprises to industrial companies--has also developed quickly in recent years. The chief distinction of this kind of operation is the issuance of capital not in the form of loans, but directly in the form of productive assets.¹² Most of the large American TNB's have leasing companies in different countries. For example, Citicorp Leasing International, a division of Citicorp, has branches in virtually all developed capitalist countries, and other overseas subdivisions secure the bank headquarters' strong ties with leasing companies in many developing countries.

So-called "project" financing, in which the credit is repaid with the proceeds from the sale of part of the products of the facility established in this manner, has become popular in recent years. This kind of financing is used primarily for large-scale projects in the developing countries, requiring the mobilization of huge sums that are sometimes not within the capability of even the largest TNB. The need to solve not only purely production-related problems, but also related energy and ecological problems, requires the united resources of many TNB's and the creation of temporary international banking consortiums.

"Project" financing has considerably increased the banks' interest in the final result of projects and in their successful completion, and has thereby strengthened the long-term relations of banking and industrial capital. Furthermore, this has virtually erased the distinction between financing based on participation in capital and the more traditional form based on the extension of credit. According to the FINANCIAL TIMES, "the distinctions between financing in the form of participation and loans have been quite vague in recent years. Banks can view themselves exclusively as suppliers of loan capital, but in many cases they have actually become investors, making investments in the form of participation."¹³

The new fields of credit and financial operations listed above have considerably increased the banks' interest in securing the dynamic development of industrial enterprises and have essentially made them participants in the process of industrial production. They attest to changes in the nature of bank operations in favor of the "productive" use of credit.¹⁴ Although available statistics on direct forms of merger by the capital of TNB's and TNC's are few in number because they concern the "holy of holies" of American financial capital's global strategy, their scales should not be underestimated. As a rule, the largest American TNB's have investments in dozens of non-financial companies, from the newest high technology industries to service enterprises.¹⁵ It is indicative that the short-term financing of non-financial companies by American banks represented close to 62 percent of the total outside financing of these companies in 1983-1984, as compared to 35 percent in the 1970's.¹⁶

The need to serve the TNC's is turning the TNB's into all-purpose credit and financial complexes capable of performing virtually all types of banking

services in any part of the world. A new step in this direction is the management of the financial resources of TNC's on the worldwide level by banks. Using the latest achievements of scientific and technical progress, the American TNB's undertake the control of all small and large flows of financial resources within the corporation in such a way that executives can be informed of the state of affairs in general or in any particular area at any given time. The TNB's also guarantee the most profitable use of the corporations' financial assets and insure them against currency and interest risks. One example of the global management of financial resources is the Citicorp system, which has its own satellite and transmitters throughout the world.

Table 3: International Bank Credits of Main Capitalist Countries at End of 1984

<u>Country</u>	<u>Billions of dollars</u>	<u>% of total credits</u>	<u>Change in 1983-84, %</u>
United States	614.5	28.1	-2.6
Japan	513.7	23.5	+14.0
France	197.1	9.0	+3.6
England	161.4	7.4	-5.6
FRG	142.1	6.5	-1.3
Canada	88.9	4.1	-0.4
Italy	88.2	4.0	+10.1

Source: LA TRIBUNE DE L'ECONOMIE, 1 August 1985.

With the aid of new technology, on which, for example, Citicorp spent over 300 million dollars in 1983 alone, attempts are being made to penetrate the "retail" banking business in Western Europe by reaching as many clients as possible (including extremely small ones) and becoming their "home" bank. "We want them to think of us as a French bank with the most diversified system of subdivisions in the world," said G. Gecanne, Citicorp's top executive in France.¹⁷

A strategic element of the reinforcement of the American TNB's competitive position is the intensive automation of operations with the latest achievements of electronics. The use of computers in the overseas branches and the main offices of banks has made it possible to establish powerful computer systems and a network of electronic terminals managing information, credit and cashiering operations. The use of automatic tellers facilitates these operations for many private clients, who can use these machines, for example, to pay for purchases or to obtain information about their accounts. The machines of American banks increased in number from 4,056 in 1975 to 43,800 in 1983, when they handled transactions involving more than 260 billion dollars. By the end of this decade technical equipment of this kind will be installed in all of the overseas branches of the TNB's that can afford this.

Despite the colossal scales of their operations and the complexity of their organizational structures, American banking monopolies are lagging far

behind industrial corporations in the sphere of strategic planning. According to the results of a survey of the 97 largest U.S. banks in 1976-1978, it was completely absent in 16 percent of them, and another 44 percent were only beginning to establish the corresponding subdivisions in their structure.¹⁸ For the majority, the planning of methods of attaining specific indicators was more common. Considerably less attention was paid to the investigation of potential competitors and possible responses.

These matters, however, are of fundamental importance in the 1980's. The increasing difficulties encountered by banks during this period have led to the realization that the global universalization and diversification of operations, in line with Bank of America's principle of "being everything to everyone," can be accessible and effective for only a limited number of leaders. The overwhelming majority of banks are striving to mark out "their" section of the credit and financial market and maximize operations within its boundaries. It is not surprising that the "segmented market," "new product development," "changing corporate culture" and other such terms have become firmly established in banking terminology in the last few years. To some extent, the banks are copying industrial corporations by regarding their operations as a product to be sold.

Motivated by their greed for profits and by increasingly fierce competition, the largest American TNB's are strengthening their position in the U.S. economy and are preparing for a decisive struggle to maintain and assert their leadership in international credit and financial transactions. The support of the American Government, whose relations with U.S. banking monopolies have undergone certain changes, is expected to play an important role in this process.

The TNB and the Government

The TNB's activities already go far beyond securing the appropriate financial base for the expansion of U.S. exports and overseas investments. Under these conditions, the TNB justifiably regards Washington as an important means of strengthening the entire system of state-monopolist capitalism and consolidating the positions of American imperialism in the world.¹⁹

What role does the TNB play in the American administration's general strategy?

Above all, the Reagan Administration's increasing budget deficits in the 1980's have led to a situation in which domestic savings are obviously not enough to finance American corporate and government expenditures. The new foreign capital in the United States, totaling around 100 billion dollars a year on the average in the first half of this decade, has become a source of financial resources.

With a massive injection of foreign capital, attracted by favorable investment conditions, the United States has been able to consume more than its economy produces, maintain economic growth, and finance colossal budget deficits and, consequently, the arms race. According to some estimates, enough foreign capital entered the country in 1984 and 1985 to cover almost two-thirds of

the structural budget deficit, or around 40 percent of all private capital investments.²⁰ In essence, the United States is able to "live beyond its means"—the volume of consumption and investments does not correspond to the level of accumulations, but is artificially raised with the aid of foreign financing.

The American TNC's play an extremely important role in this process. They are not confined to purely mediating functions, such as the distribution of U.S. Government securities to foreign investors, and have become instrumental in the satisfaction of the American economy's demand for foreign financial resources. Redirecting their attention to the domestic market, the American banks which were just recently net exporters of capital from the United States have become net importers. The positive balance in their international operations of 60 billion dollars in 1982 was followed by a negative balance of 5 billion in 1983 and 28 billion in 1984. Therefore, according to the latest estimate of the Morgan Guaranty Trust company, the banks were the direct source of one-fourth of all the capital entering the United States in 1984 and one-third in the first quarter of 1985.²¹

In the second place, American TNB's provide the financial support for the Reagan Administration's expansionist foreign policy line. Loans and credits to foreign borrowers depend on political considerations and their attitude toward U.S. foreign policy. The financing of developing countries is designed to keep them within the orbit of the world capitalist economy at any cost. Some of the methods used are the extension of TNB credit on shackling terms and the U.S.-sponsored financing of investments through such international credit and finance organizations as the IMF and IBRD.

Besides this, U.S. monopolist banking capital was also involved in the American administration's unsuccessful attempts to organize a credit blockade of the socialist states with the aim of undermining their trade and economic relations with capitalist countries. According to a survey of the 200 leading U.S. banks by Chilton International, the number of TNB's interested in the development of credit relations with the USSR declined from 117 in 1978 to 43 in 1982.²² According to the banks themselves, this was primarily the result of the deterioration of the overall political climate in relations with socialist countries. Reactionary political groups in the United States have never given up the hope of turning credit relations into an instrument of political pressure and blackmail. The Garn-Proxmire bill introduced in Congress in spring 1985 provides evidence of this. Its authors hoped to grant the President the power to prohibit the extension of credit to socialist countries by private American banks.

As we can see, U.S. banking capital became a much more vigorous promoter of the policy of American imperialism in the first half of the 1980's.

The state-monopolist regulation of banking operations is intended, on the one hand, to strictly control the international operations of American TNB's and, on the other, to stimulate them.

For example, to avert the possible exacerbation of debts in the future, U.S. regulating bodies instituted stricter requirements in 1983 on the correlations

between bank assets and personal capital and between total credit extended and reserve funds, and also obligated banks to submit information on each credit operation equivalent to 1 percent or more of their total assets.²³

As a result of the so-called policy of "deregulation" of banking activity in 1982 and 1983, on the other hand, restrictions on interest on deposits were relaxed considerably, and this did much to equalize the operating conditions of the national credit system and the international financial market.

Besides this, the Reagan Administration did not confine itself to the indirect stimulation of international banking operations and is making vigorous preparations for the direct government support of American TNB's.

Back in the early 1980's, the White House wanted to neutralize the negative effects of the increasingly serious debt problems of developing countries and decided to undertake massive operations to save the possible victims of this kind of crisis if necessary.

Continental Illinois, the U.S. bank ranking seventh in terms of total assets, serves as an example corroborating the seriousness of the administration's intentions. To keep this large TNB afloat--that is, to eliminate the real threat of its bankruptcy--official financial organs, headed by the Federal Reserve System, mobilized 4.5 billion dollars. Furthermore, the U.S. comptroller of the currency confirmed the administration's willingness to satisfy "any emergency liquidation needs" of all the largest American TNB's.²⁴ A joint plan of the FRS and Department of the Treasury, envisaging the purchase of problem credits from private banks, was published. According to this plan, banks would receive up to 90 cents on the dollar for these credits, and the Department of the Treasury would then secure them with 50-year bonds. The banks would be allowed to include them as part of their own capital but would be unable to pay dividends on them.²⁵

It appears that the chief aim of the plan was not the actual performance of the actions it described, which would certainly have entailed great difficulties, but the delivery of a specific propaganda impact to strengthen the wavering faith in the U.S. banking system.

The U.S. administration's "Baker Plan," named after the secretary of the treasury who proposed it at the end of October 1985, is much more realistic and, consequently, more important from the standpoint of the government support of American TNB's. Although it concentrates on measures to surmount the crisis of the developing countries' indebtedness, several of its provisions pertain directly to the activities of American banks.

In particular, the "Baker Plan" envisages an increase of more than 20 billion dollars in long-term credits to the largest debtor countries for 3 years, with approximately one-third of the sum to be financed by the IBRD and regional development banks. Furthermore, the extension of credit is to be conditional upon the borrowers' consent to structural economic reforms for the encouragement of private enterprise and the establishment of a favorable investment climate, which would aid in strengthening the dominant position of foreign

capital, especially American capital, in the economies of the developing countries. The establishment of a "superbank"--that is, something like a banking consortium for the refinancing of old debts and the extension of new credit--in accordance with the "Baker Plan" would facilitate the American transnational banks' use of the resources of other banks and of international credit and finance organizations to surmount their own difficulties and strengthen their competitive position.

In summation, it must be said that there has recently been more interaction by American TNB's and TNC's with the government. This alliance is expected to secure American imperialism's dominant position in world capitalist economic and political affairs. At the same time, U.S. banking capital, in spite of increasing competition from foreign banks, is relying on the universal nature, dynamism, mobility and experience of the TNB's to defend and consolidate its leading position in the international credit and financial sphere.

FOOTNOTES

1. V.I. Lenin, "Poln. sobr. soch." [Complete Collected Works], vol 27, p 329.
2. See, for example, V.F. Zhelezova, "Klan 20-ti" [The Clan of 20], Moscow, 1981; idem, "Amerikanskiye banki 'doma' i za granitseyy" [American Banks "at Home" and Abroad], Moscow, 1983; "Mezhdunarodnyye kreditnyye otnosheniya kapitalisticheskikh stran" [International Credit Relations of Capitalist Countries], edited by G.T. Matyukhin and I.S. Korolev, Moscow, 1981; V.B. Mogutin, "Banki i mezhdunarodnyy kapitalisticheskiy biznes" [Banks and International Capitalist Business], Moscow, 1981; Ye.I. Selikhov, "Mezhdunarodnyye banki i bankovskiye gruppirovki" [International Banks and Banking Groups], Moscow, 1973; I.A. Sysoyev, "Ekspansiya transnatsionalnykh bankov" [The Expansion of Transnational Banks], Moscow, 1979; L.S. Khudyakova, "Ekspansiya transnatsionalnykh bankov," Moscow, 1979; idem, "Amerikanskiye banki na mirovykh rynkakh" [American Banks in World Markets], Moscow, 1979, and others.
3. "United States Multinational Banking," N.Y., 1976, pp 5-20.
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WASHINGTON'S VIEW OF THE RAROTONGA TREATY

Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 1, Jan 87
(signed to press 17 Dec 86) pp 38-48

[Article by V.F. Davydov: "The Rarotonga Treaty and Washington"]

[Text] The threat of nuclear catastrophe looming over the nations of the world has not bypassed the distant corners of the planet either. In August 1986 the 17th session of the South Pacific Forum was held in the capital of Fiji. This regional political and economic organization unites 13 states and self-governing territories. These are Australia, New Zealand, the Cook Islands, Papua New Guinea, Niue, Nauru, Kiribati, Tuvalu, Tonga, Vanuatu, Fiji, Western Samoa, and the Solomon Islands. The main issue discussed at the session was the legal establishment of a nuclear-free zone in this region.

The decision to create a nuclear-free zone in the South Pacific was made in August 1985 at the preceding session of the forum, held in the administrative center of the Cook Islands, Avarua, a city located on the island of Rarotonga. This is why this agreement was called the Rarotonga Treaty. The treaty was signed by 13 states, including Australia, New Zealand, Fiji, the Cook Islands, and Kiribati. The treaty went into effect in December 1986, after the eighth signatory (Australia) had ratified it. By the terms of the treaty, these countries pledged forever not to acquire, use, test, or deploy nuclear weapons on their territory.

The new nuclear-free zone is surpassed in size only by the nuclear-free zone established in Latin America by the Tlatelolco Treaty. According to the description attached to the Rarotonga Treaty, the southern border of the zone is in latitude 60° south, and the northern border runs along the equator. In the east the zone will border on the Tlatelolco Treaty zone, and the western border will pass through the territorial waters of Australia and Indonesia. Although the total population of the countries in the zone is relatively small--around 24 million--the total dimensions of the territory they occupy are colossal--around 8.5 million square kilometers.

The nuclear-free zone in the South Pacific was the second territory where the population decided to dissociate itself from nuclear preparations and to legally secure its nuclear-free status. In combination with the existing Tlatelolco Treaty and the plans for the creation of nuclear-free zones in

Europe, America, Africa, the Middle East, the Far East, and Southeast Asia, the Rarotonga Treaty will inflict severe damage on Washington's militarist plans. The appearance of this zone was a concrete and tangible contribution by a large group of non-nuclear states to the consolidation of international security and nuclear disarmament.

I

Ever since the American atom bombs reduced the Japanese cities of Hiroshima and Nagasaki to ashes, the people of Asia and the Pacific have been living with the threat of nuclear annihilation. In an interview in the 20 June 1985 issue of FAR EASTERN ECONOMIC REVIEW, U.S. Secretary of Defense C. Weinberger proudly declared that "U.S. military positions in Asia have never been so strong."¹

The United States' second largest grouping of all-purpose forces is deployed in the Asian-Pacific region. It consists of 474,000 servicemen.² This is the location of sea-based strategic forces, with nuclear missile submarines representing their foundation. The new missile carriers of the Ohio class, equipped with Trident-1 systems, are being sent to the Pacific zone first. In 1985 there were four of these submarines in the zone; by 1990 there will be nine. Military experts estimate that more than 2,000 nuclear warheads will be concentrated on them. In 1989 the Pentagon plans to begin deploying the new Trident-2 ballistic missile system on these submarines, and this will augment their strength and zone of operations even more.

Strategic B-52 bombers carrying nuclear missiles are constantly flying over the Pacific.

The American Navy has close to 200 ships and more than 1,500 planes in the Pacific zone. The 7th Fleet has been assigned a special role. It usually consists of 3 aircraft carriers with 240 airplanes on board, 8 or 9 nuclear multi-purpose submarines, and over 30 cruisers, destroyers and frigates. A basing system for the support of the fleet has been established in the region and is constantly being improved.

The ships of the 7th Fleet are now being equipped with long-range Tomahawk cruise missiles. It is the practice of the U.S. Navy to enter the ports of the Asian-Pacific countries to "display the flag." According to retired Admiral G. La Rocque, director of the Center for Defense Information, 80 percent of all the ships of the U.S. Navy have nuclear weapons on board.

More than 3,000 tactical nuclear weapons are stored in U.S. military depots, and 1,000 of these are in South Korea.³ In January 1985 it was reported that the Pentagon plans to increase its supply of nuclear weapons in the Philippines. Japan's direct participation in U.S. military preparations in the Far East has caused Tokyo to ignore the Pentagon's deliberate violation of the three non-nuclear principles Japan has declared--to not have, not produce, and not import nuclear weapons.

In accordance with existing agreements, Washington has around 350 military bases and installations in the region and is using them more and more vigorously for aggressive preparations.

The United States uses the ports of Japan and South Korea as if they were its own. The largest U.S. naval complex in the Far East is located in the Japanese port of Yokosuka, and American combat ships are constantly berthed here, including nuclear aircraft carriers and submarines carrying nuclear arms. The Sasebo naval base, at the inlet to the Sea of Japan, is used in the same way.

An important American naval base, Subic Bay, and the Clark Field air base are located in the Philippines. The Pentagon has not lost sight of the ASEAN countries either (Malaysia, Indonesia, Singapore, Thailand, and Brunei) and hopes to involve them in its military strategy in Southeast Asia. American naval forces equipped with cruise missiles and F-16 planes participated in the "Cobra Gold-86" large-scale maneuvers in the Gulf of Siam in July and August 1986.

Dozens of F-16 bombers--nuclear weapon carriers--are deployed on air bases in Japan, South Korea and the Philippines. Plans for nuclear war are perfected during the annual "Team Spirit" maneuvers in Korea. This is also the location of important strategic aviation and nuclear submarine command points.

After World War II Washington furthered its global ambitions by concluding multilateral and bilateral military treaties and agreements with the countries of the region. Some of them, such as SEATO, later fell apart. The ANZUS alliance, consisting of the United States, Australia and New Zealand, was formed in 1951. Now New Zealand's antinuclear position has effectively turned the trilateral pact into a bilateral U.S.-Australian alliance.⁴

The nuclear infrastructure of U.S. forces includes military installations in Australia, in reference to which THE NEW YORK TIMES MAGAZINE remarked: "They are not only intended for early warning in the event of nuclear war, but also collect vitally important reconnaissance data and provide the American Navy with channels of communication in the Pacific and Indian oceans."⁵

The U.S. military doctrine in this part of the world, just as in Europe, rests on the idea of the first use of nuclear weapons. Its universal nature is regularly pointed out by Western military strategists. In the book "Nuclear First Use," English experts write that "it applies to southeastern Europe, the north Atlantic, the Persian Gulf, the Korean peninsula, and the Falkland Islands."⁶ It was precisely for Asia and the Pacific, they note, that the Pentagon first advanced the theory of "limited nuclear war." At the beginning of 1975 U.S. Secretary of Defense J. Schlesinger said, in reference to the DPRK, that the United States was prepared to use nuclear weapons first in "limited conflicts."

Throughout the postwar period the aggressive actions of the United States have created the threat of nuclear war in the region. This happened at the time of the American aggression in Korea in the 1950's, when President H. Truman threatened to drop the nuclear bomb, as the President's personal papers testify. In 1954 D. Eisenhower considered the possibility of using the American Mark-21 tactical nuclear missiles against the Vietnamese forces surrounding the French colonial troops in Dien Bien Phu. In 1954 and 1958

Washington was prepared to deliver a nuclear strike against China during the crises connected with the Taiwan question. In 1958 American howitzers capable of firing nuclear ammunition were installed on Quemoy, an island in direct proximity to the PRC. In 1968 the Joint Chiefs of Staff advised President L. Johnson to sanction the use of nuclear weapons to liberate the American troops surrounded by Vietnamese patriots in the Khe Sanh region.

The United States deployed its armed forces 44 times in this part of the world between 1946 and 1975 to attain political goals. Washington continued to threaten the use of nuclear weapons in the 1980's. Although the PRC and the USSR have pledged no first use, the United States is still filling this region with nuclear weapons and is still willing to use them first in times of crisis.

The South Pacific became a nuclear bridgehead and the main testing ground for new nuclear missiles, and now for space weapons systems as well. From 1946 to 1963 the United States conducted more than 100 tests of nuclear weapons in the atmosphere on the Marshall Islands and the ill-fated atolls of Eniwetok and Bikini. These tests severely injured the environment and the people. There was the memorable tragedy of the Japanese schooner "Takaya Maru" and the slow and agonizing death of its fishermen from radioactive fall-out. The inhabitants of the Marshall Islands are still trying to sue the United States for the damages caused by the nuclear tests.⁷

England conducted nuclear tests in Australia's Victoria desert and on the Monte Bello Islands in the 1950's and 1960's. France took the place of the United States and England in 1966. Paris has already conducted more than 100 nuclear tests (including 45 in the atmosphere) on the atoll of Mururoa in Polynesia, which has the status of a French "overseas territory." Despite the continuous protests of the countries in this region, France intends to continue the nuclear tests. It was here that the French neutron bomb was also tested. Paris even went so far as to sink the "Rainbow Warrior" in a New Zealand port in July 1985. The boat belonged to the international Greenpeace organization and was going to Mururoa atoll to protest the nuclear testing. This incident revealed the brutal terrorist treatment of members of antinuclear movements advocating the cessation of nuclear tests.⁸

The United States, England and France never did respond to the USSR's appeal to follow its example and join it in the moratorium on all nuclear tests it had announced unilaterally and had instituted in August 1985.

In the middle of the 1980's the United States has not only continued the testing of its MX ballistic missiles, but is beginning to develop its "Star Wars" systems. The Pentagon is using Kwajalein atoll, part of the Marshall Islands, for this purpose. Systems for the interception and destruction of intercontinental missiles were already being tested here in 1985. The Pentagon is also considering the use of its military installations in Australia for this purpose--especially the bases in Pine Gap and Narrangara.

The Pacific Ocean has become a nuclear bridgehead and testing ground and has also been turned into a dump site for radioactive waste. According to

official Pentagon data, 40 cases of the disposal of this waste have been recorded in just the last few years. This could be dangerous to the population of the region and to its flora and fauna, especially the fish. As if this were not enough, Japan, the United States and the West European countries with a developed atomic industry are considering the possibility of using the Pacific Ocean, especially the trench near the Mariana Islands, for the disposal of waste from nuclear power plants.

In the middle of the 1980's the militarization of the Asian-Pacific region, its transformation into an arena of politico-military confrontation, and the mounting threat of nuclear catastrophe evoked the unprecedented growth of antinuclear feelings in its countries. Movements for the dismantling of military bases and against participation in U.S. nuclear strategy became much stronger in Japan, South Korea, the Philippines, Australia, and New Zealand. The idea of creating nuclear-free zones as a guarantee of safety from the nuclear threat is quite popular here. The DPRK proposed the creation of a nuclear-free zone on the Korean peninsula. The ASEAN countries are considering plans for a zone of peace, with part of this zone set aside as a nuclear-free zone. Other insular states, such as Palau, have adopted a non-nuclear constitution prohibiting the construction of U.S. bases on their territory. Vanuatu, the Solomon Islands, and New Zealand have prohibited the entry of their ports by ships with nuclear weapons and nuclear engines. All of the countries in the region regularly advocate a total ban on nuclear tests and vote for these resolutions in the United Nations.

The realization of their common fate in the face of the nuclear danger and of the need to avert the imminent threat and to promote the cause of nuclear disarmament was what motivated the countries of the South Pacific to create and legalize the nuclear-free zone. In reference to these common interests and goals, Prime Minister D. Lange of New Zealand stressed in an article in the summer 1985 issue of FOREIGN AFFAIRS: "The countries of the South Pacific do not want their region to become an arena of nuclear rivalry."⁹

II

The idea of creating a nuclear-free zone in the region came into being at the beginning of the 1970's. It was proposed by the labor government of New Zealand and was supported by Papua New Guinea, Fiji and Australia. In 1975 the initiative was submitted for discussion at the 30th session of the UN General Assembly and was approved by the majority of countries. Even then, however, the United States was opposing the nuclear-free zone on the pretext that the participation of New Zealand and Australia in its creation would be inconsistent with their membership in the ANZUS bloc.¹⁰ At that time it was relatively easy for Washington to prevent the further development of this idea and its implementation, and it was assisted considerably by the election victory of the conservative parties in New Zealand and Australia and by their common policy of strengthening politico-military ties with the United States within the ANZUS bloc.

The idea of the nuclear-free zone was back on the agenda 10 years later, after the return of the labor governments in Australia in 1983 and New Zealand in

1984. The basic premises of the status of the nuclear-free zone were defined at the 15th session of the South Pacific Forum in 1984, and a working group was formed to draft the appropriate document, which was then submitted to the forum for discussion a year later.

The basic provisions of the treaty on the creation of a nuclear-free zone in the South Pacific are recorded in articles 3-7.

Article 3 declares the rejection of nuclear explosive devices. The signatories pledge: "a) not to produce or acquire, not to possess or control any nuclear explosive devices by any means whatsoever--inside or outside the nuclear-free zone in the South Pacific; b) not to seek or accept any kind of assistance in the production or acquisition of any nuclear explosive device; c) not to take any action to assist or encourage the production or acquisition of any nuclear explosive device by any state."

Article 4 concerns the use of atomic energy for peaceful purposes.

Article 5 contains a pledge to prevent the emplacement of nuclear explosive devices within the territory of signatories. However, "each signatory is free to exercise its own sovereign rights in deciding whether or not to allow foreign ships and planes into its ports and airports, planes into its air space, and foreign ships into its territorial waters."

Article 6 obligates the signatories "to prevent the testing of any nuclear explosive device on their territory" and "not to take any action to assist or encourage the testing of any nuclear explosive device by any state."

Finally, Article 7 obligates the signatories "not to dispose of radioactive waste and other radioactive substances anywhere within the South Pacific nuclear-free zone" and not to encourage such action by anyone else.

The treaty envisages the creation of a system for the verification of the observance of treaty provisions, the exchange of information, the organization of consultations within the consultative committee established for this purpose, etc. The treaty is open-ended.¹¹

As the text of the treaty indicates, Article 5 makes the U.S. use of military installations of nuclear strategic value possible, with the consent of the government of a country in the region. This wording, allowing Washington to eviscerate and violate the nuclear-free status of the zone, was adopted largely at the insistence of the Australian Government.

American B-52 bombers are known to land on an air base in Darwin, in northern Australia. When LE MONDE DIPLOMATIQUE (November 1985) analyzed the text of the treaty, it had good reason to say that, in spite of its signature, "Australia is still an active member of the global system of nuclear weapons created by the Americans." The Nuclear Disarmament Party in Australia has pointedly criticized the government of R. Hawke. Senator Josephina Valentine expressed the opinion of the average Australian in her speech in Parliament on 20 September 1985: "We are assured that the bases are useful as an aid in

preventing nuclear war, but I am convinced that they are only useful to the United States in its preparations for nuclear war."

With a view to the antinuclear feelings, Canberra had to reconsider its promise to give Washington a chance to observe MX missile tests on its territory and officially refused to participate in the research programs connected with "Star Wars." To some extent, the antinuclear movement has also forced the Hawke government to begin the reassessment of Australian military policy. In June 1986 a report submitted to Parliament by the Ministry for Defense stipulated the need to avoid future participation in the planning of joint operations with the United States in the Pacific beyond Papua New Guinea and its own Cocos and Norfolk islands and to adopt the concept of independent defense forces. Foreign policy analysts believe that the new priorities could disrupt the ally relationship with the United States within ANZUS, on the basis of which Australian armed forces took part in the U.S. aggression in Korea and Vietnam. The 7 July 1986 issue of the ASIAN WALL STREET JOURNAL commented: "Whereas the United States and New Zealand had an angry separation, the United States and Australia will go their separate ways quietly."

The fierce battle between the United States and New Zealand over Article 5 of the Rarotonga Treaty is still going on. A bill prohibiting the entry of the country's ports by ships carrying nuclear weapons was introduced in Parliament in December 1985. The Lange government has repeatedly announced from 1984 through 1986 that the security of New Zealand demands the refusal to deploy nuclear weapons on its territory, that it does not want to be the target of a nuclear strike, and that its non-nuclear status can only be guaranteed by banning the entry of ships carrying nuclear weapons. In February 1985, just before the beginning of the regular ANZUS maneuvers, Wellington did not allow the American destroyer "Buchanan" to enter a New Zealand port because Washington provided no assurances that there were no nuclear weapons on board the ship. The maneuvers did not take place.

The United States reacted to this decision with anger. American propaganda and official Washington launched an unprecedented campaign of threats. The Government of New Zealand was accused of betraying the interests and weakening the security of the West and of undermining ANZUS. The complete severance of politico-military relations with New Zealand and the institution of economic sanctions against the ally that had challenged the fundamental principles of U.S. nuclear strategy were demanded several times during congressional hearings in March 1985.

Military experts in the West agree that Wellington's position will not have a noticeable effect on Pentagon strategic interests. Then what is the matter? American policymakers are extremely worried about the possibility of a chain reaction--similar antinuclear moves by other allies.¹² In April 1985 Iceland, a NATO member, announced the same decision. To avoid admitting the fact that the chain reaction had already started, Washington felt that it would be best not to respond in any way to Iceland's decision.

Pentagon officials are worried that the same policy could be pursued by Japan, which formally also prohibits visits by ships and planes carrying nuclear weapons. It is true that the Nakasone government "wisely" does not

ask Washington any questions about the presence of nuclear weapons on them, and Washington does not feel the need to inform its ally of this. The example of New Zealand, however, has strengthened the demands of the already powerful antinuclear movement. This could also affect the situation in Southeast Asia. New Zealand's antinuclear position could lead to the complete disintegration of the ANZUS bloc.

New Zealand is no longer alone in keeping ships carrying nuclear weapons out of its ports. This is already being done by several countries in the nuclear-free zone.

The Rarotonga Treaty was signed just at the time when Washington was trying to put Wellington in a straitjacket and force it to change its mind by threatening it with economic and political sanctions. "Against the background of this war of nerves," the FAR EASTERN ECONOMIC REVIEW stressed, "U.S. officials had a more than hostile reaction to the treaty, because they are afraid of the spread of the nuclear allergy."¹³

Three protocols addressed to the nuclear powers were added to the text of the treaty to guarantee the non-nuclear status of the zone. Protocol I concerns the United States, Great Britain and France, because they legally control some territories in the zone defined in the Rarotonga Treaty. For France, these are New Caledonia, French Polynesia, and Wallis and Futuna Islands. Eastern Samoa is a U.S. possession, and Pitcairn Island belongs to Great Britain. This protocol stipulates that the nuclear powers can assume the same basic commitments in these territories as the South Pacific Forum countries assumed by the terms of the treaty (articles 3, 5, 6).

The two other protocols can be signed by all nuclear powers. Protocol II specifies the following obligations: first, not to assist in any actions representing violations of the provisions of the treaty and its protocols by signatories; second, not to use nuclear explosive devices or threaten their use against signatories and the South Pacific territories controlled by the powers signing Protocol I. Protocol III concerns the obligation not to test any kind of nuclear explosive devices within the nuclear-free zone.

Consultations with nuclear powers are envisaged for the finalization of the wording of the protocols. Discussions of this kind were conducted with the Soviet Union in February 1986. The Soviet side announced that the creation of a nuclear-free zone in the South Pacific would be an important contribution to the establishment of a reliable security system in the Asian-Pacific region, would contract the geographic boundaries of nuclear proliferation, and would aid in putting an end to nuclear weapons on earth completely and forever and preventing an arms race beyond the earth's boundaries--in space. The South Pacific nuclear-free zone treaty and its protocols are essentially consistent in their present form with the Soviet Union's criteria for nuclear-free zones. At the same time, the Soviet side stressed that the agreement to create a nuclear-free zone must secure the transformation of the territory of signatories into a zone completely free of nuclear weapons. In particular, this presupposes the prohibition of transit through the territory of the nuclear-free zone by nuclear weapons and nuclear explosive devices, including

the entry of ports and airports there by foreign military ships and aircraft with nuclear weapons on board. The South Pacific Forum delegation expressed gratitude for the Soviet Union's support of the decision of their countries to declare the South Pacific a nuclear-free zone and promised to take the Soviet side's comment into consideration.¹⁴

The creation of a zone free of nuclear weapons in the South Pacific was also supported by the PRC. However, the position of the other nuclear powers, especially the United States, as well as England and France, will be quite significant for the implementation of the main provisions of the Rarotonga Treaty and their acquisition of a universal nature.

III

The treaty on the nuclear-free zone and the refusal of New Zealand, Vanuata, the Solomon Islands, and other states to allow ships carrying nuclear weapons into their ports will not only contract the geographic sphere of the Pentagon's strategic preparations, but will also set a political precedent which will be undesirable for the United States and which could be repeated in other countries. In a speech in Singapore in June 1986, Secretary of State G. Shultz stressed that the United States is against this initiative and that "it will be a mistake to create a nuclear-free zone in the region." R. Hayes, commander-in-chief of the U.S. Armed Forces in the Pacific and Indian oceans, agreed with him, stating that "the American military has objections."

The signing of Protocol I by the United States would signify agreement with Article 5 of the treaty, prohibiting the deployment of nuclear weapons. The United States signed and ratified a similar protocol to the Tlatelolco Treaty on the prohibition of nuclear weapons in Latin America. England did the same. France signed Protocol I to the Tlatelolco Treaty but did not ratify it. After lengthy delays, the United States, England and France also had to sign and ratify Protocol II to the Tlatelolco Treaty on the observance of the non-nuclear status of the zone. In particular, they had to pledge not to use or threaten to use nuclear weapons against its signatories. Therefore, there are international legal precedents to aid in defining the attitude of the United States, England and France to Protocols I and II to the Rarotonga Treaty. It is obvious, however, that Washington, London and Paris do not want them to become a common occurrence or the norm in international relations, especially in the Asian-Pacific region.

As for Protocol III on the prohibition of nuclear tests, France has announced its intention to continue these tests on Mururoa atoll. Washington, on the other hand, is in an embarrassing position. On the one hand, the United States does not intend to stop its own nuclear tests and has an interest in keeping the French and English tests going at a time when all other countries in the world are advocating their cessation. On the other hand, Washington has to give some consideration to the interests of Australia, which could change its position on Article 5 of the treaty and institute stricter control of U.S. military activity within its territory or prohibit this activity altogether if the United States should refuse to sign Protocol III. Besides this, the U.S. refusal to sign the protocols to the treaty could be interpreted in the Pacific countries as approval of the French nuclear tests.

"This will make the current antinuclear movement more hostile to the United States," LE MONDE DIPLOMATIQUE stressed.¹⁵

Under these conditions, Washington tried to keep the Rarotonga Treaty from acquiring international legal status by pressuring the forum members which had not signed it yet. It simultaneously tried to diminish the impact of the treaty, particularly Article 5, by imposing bilateral agreements on its signatories regarding the entry of their ports and harbors by ships carrying nuclear weapons. The United States established something like a cordon sanitaire to the north of the nuclear-free zone to prevent the spread of antinuclear feelings.

In December 1985 Congress approved the association of the Federated States of Micronesia and the Marshall Islands with the United States.

An agreement on "free association" has been signed with Palau. The United States undertook "full responsibility for the defense" of these territories. "This," the FAR EASTERN ECONOMIC REVIEW stressed, "will make it possible to establish and use military bases here, and, in the future, to refuse other states access to the vast region of 2,000 islands stretching approximately 2,500 miles to the east of the southern Philippines."¹⁶ The Pentagon already has an important base on Kwajalein atoll and is planning to establish bases on the islands of Saipan, Tinian and Palau, which are regarded, along with Guam, as key positions in this part of the Pacific. It is true that the agreement prohibits the testing of nuclear weapons and disposal of radioactive waste by the United States. In December 1985, however, Washington disregarded the non-nuclear provisions of Palau's constitution and convinced it to sign an agreement allowing military ships carrying nuclear weapons to enter its harbors and ports. Nuclear and chemical weapon depots are located on atolls in the Pacific.

To keep Australia from being infected by the New Zealand example, in 1986 Washington decided to dramatically increase the number of entries of Australian ports by American ships carrying nuclear weapons. In summer 1986 alone, three warships were in the port of Fremantle all at once--the nuclear aircraft carrier "Enterprise" and the missile cruisers "Arkansas" and "Truxton." The United States exerted stronger pressure on other countries throughout 1986. In June 1986 Secretary of State G. Shultz categorically declared that the United States had no intention of taking its nuclear weapons out of the Pacific basin.

Whatever steps the United States might take, however, the nuclear-free zone in the South Pacific has become a reality of international relations and will have to be taken into account by all states in the world, including the Western nuclear powers.

IV

The signing of the Rarotonga Treaty dramatically increased the interest of the Asian-Pacific countries in nuclear-free zones. For example, an ASEAN working group met in Kuala Lumpur (Malaysia) in summer 1985 to discuss the declaration

of Southeast Asia a nuclear-free zone. In June 1986 the ASEAN foreign ministers unanimously supported this idea at their regular meeting in Manila in spite of Washington's objections. Political analysts in the West noted that this was a reaction to the expansion of the Pentagon's military, including nuclear, presence in the Pacific basin. A resolution introduced in the National Assembly of the Philippines in summer 1985 called for the immediate removal of nuclear weapons from the Philippines and the cancellation of agreements with the United States on military bases. The METRO MANILA TIMES reported: "The creation of huge nuclear stockpiles in our country will make the archipelago a target in a nuclear conflict." The resolution was supported by many assembly deputies. The Rarotonga Treaty was supported by Indonesia, which announced that it reflected the firm position of all Pacific countries on this matter. In 1986, in its initiatives on the normalization of the situation on the Korean peninsula, the DPRK again stressed the importance of creating a nuclear-free zone here. In Japan around 1,000 cities had declared themselves nuclear-free zones by 1987.

All countries which have pledged not to have nuclear weapons of their own regard the Rarotonga Treaty as an example which must be followed to strengthen security and neutralize the nuclear threat. In combination with the Tlatelolco Treaty, it constitutes the basis for the consolidation of the non-nuclear states in the struggle for nuclear-free zones.

The signing of the Rarotonga Treaty was enthusiastically applauded by most of the participants in the third international conference to verify the nuclear non-proliferation treaty in Geneva in August and September 1985. Its final declaration stressed that the creation of the nuclear-free zone in the South Pacific was completely consistent with Article VII of the Non-Proliferation Treaty. It asks nuclear states to guarantee the nuclear-free status of the zone.¹⁷

The Soviet Union and other socialist countries wholeheartedly support the efforts of the Asian and Pacific states to neutralize the nuclear threat. When M.S. Gorbachev spoke in Vladivostok on 28 July 1986, he stressed: "We want to guard against the proliferation and stockpiling of nuclear weapons in Asia and the Pacific.... The USSR supports the declaration of the South Pacific a non-nuclear zone and asks all nuclear powers to guarantee its status unilaterally or multilaterally. The implementation of the DPRK's proposal on the creation of a nuclear-free zone on the Korean peninsula would be a serious contribution. The idea of creating this kind of zone in Southeast Asia has aroused the interest it warrants."¹⁸

The establishment of a reliable security system in Asia and the Pacific will necessitate action by all states to eliminate the factor of nuclear weapons from international relations. The following undertakings could have a positive influence:

The refusal of all nuclear powers to use nuclear weapons first;

The signing of the Treaty on the Non-Proliferation of Nuclear Weapons by all states which have not signed it yet;

The non-use of nuclear weapons against countries and regions observing the non-nuclear principles;

The assumption of commitments by states not having nuclear weapons to disallow the transit or deployment of these weapons within their territory;

The complete cessation of nuclear tests, including tests in Asia and the Pacific basin;

The reduction of naval activity in the Pacific, especially by ships equipped with nuclear weapons;

The refusal of the Asian and Pacific states to participate in the plans for the militarization of space;

The dissolution of military groupings and the dismantling of foreign bases in Asia and the Pacific, the withdrawal of troops from foreign territory, and the reduction of armed forces and conventional arms.

The appearance of another nuclear-free zone in the world testifies indisputably to the acknowledgement of the real threat of thermonuclear catastrophe by larger and larger segments of the world public, including the public in regions relatively distant from the centers of world politics and the "hot spots" on the planet. The non-nuclear countries of this region have found and are effectively implementing the kind of security concept that forever excludes the possibility of nuclear weapons. The Rarotonga Treaty will establish the necessary conditions to alleviate the danger of thermonuclear conflict. Its positive influence will lead to the creation of nuclear-free zones in other parts of the world, where the people do not want to live any longer under the Damoclean sword of nuclear annihilation.

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THE CONSEQUENCES OF THE IRANIAN AFFAIR

Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 1, Jan 87
(signed to press 17 Dec 86) pp 60-67

[Article by N.D. Turkatenko]

[Text] Under a hail of accumulating disclosures, President Reagan admitted in a national broadcast on 6 December that "mistakes were made" in administration policy in relations with Iran.

This scandal had been brewing since 25 November, when President Reagan greeted accredited White House correspondents at a press conference with an uncharacteristically gloomy expression. He announced the resignation of National Security Adviser J. Poindexter and the firing of NSC Deputy Director for Political-Military Affairs Lt Col O. North. Mistakes had been made, the President then said, in U.S. dealings with Iran. He announced the formation of a special commission "to investigate the role and methods of the NSC staff in the conduct of foreign policy and national security policy." The commission was to be headed by one of the President's closest political advisers, former Senator J. Tower, a Republican. Other members would be E. Muskie, secretary of state in the Carter Administration, and Lt Gen B. Scowcroft, national security adviser in the Ford Administration.

The President refused to answer the reporters' questions and turned the floor over to the man standing next to him, Attorney General E. Meese. Meese surprised the reporters with another revelation. He announced that his department would conduct a "thorough investigation" of the activities of Lt Col North, who had been directly in charge of the arms shipments to Iran and had resorted to methods and actions that were allegedly unauthorized by the NSC leadership and the President. In particular, according to Meese, North had deposited "part" of the money received from Iran in a secret Swiss bank account, from which it was then sent to "the forces in Central America opposing the Sandinistas"--that is, the "contras."

The next day after the press conference, FBI agents went to North's office and confiscated his papers. They immediately learned, however, that North had been able to turn most of the documents into "noodles" with a special machine before the FBI agents arrived and before the White House Secret Service changed the locks on his office door and safe.

White House staffers maintain that North destroyed the most important documents needed for the investigation of the case. North's relations with the White House were mentioned in some of the documents. North himself refused to talk to reporters about the shredding of the documents or any other details of the matter. He told one reporter: "I cannot say anything now, but I will later." His attorney also refused to comment. The whereabouts of some of the White House files North and former National Security Adviser Poindexter had kept are still unknown.

The agencies and methods of the "investigations" announced by the President and the attorney general immediately evoked mixed reactions in Washington. Republican Party leaders and the President's most loyal supporters felt relief: After all, it was necessary to "save the prestige of the President and the nation." Many others, however, were immediately suspicious--these were Republicans and Democrats, and also the press. They pointed out that the White House obviously wanted to limit participation in the "investigation" to the members of its own administration and to "formers" with no current access to all of the secluded corners of the halls of power.

Meese is Reagan's best friend, said, for example, J. Kerry, the Democratic senator from Massachusetts. Meese is a cabinet member and is present at all meetings of the National Security Council. Putting him and his department in charge of the investigation is the same as putting a fox in charge of the henhouse. Kerry and other senators and congressmen, including Chairman P. Rodino of the House Judiciary Committee and Senator J. Glenn, demanded the appointment of a special independent prosecutor to investigate all of the aspects of the "Iranian affair," and also a thorough investigation of the matter by congressional committees.

In January, when Congress reconvenes for its 100th session, in which the Democrats will hold the majority in the Senate as well as the House of Representatives, the investigation will proceed at full speed. Of course, it will be conducted carefully, to avoid another "Watergate."

Some Senate and House committees have already begun looking into the Iranian affair. The Senate Intelligence Committee has started a special investigation. "The first to feel the heat will be the CIA," a committee spokesman said. The matter is also being investigated by some House committees.

The investigation is certain to turn up many more embarrassing details of the Iranian affair. It has already done enough to suggest that the reputation of the White House, the administration in general and President Reagan in particular, has been undermined to such an extent that it will never be able to win the trust of anyone, either inside the country or abroad, in the remaining 24 months of Reagan's term in office. In fact, this trust had already been thoroughly undermined by the renunciation of the agreements reached in Reykjavik at the Soviet-American summit meeting on fundamental ways of curbing the arms race, by the disclosure of the secret campaign of disinformation against Libya, and by many other incidents.

Let us review what might be described as the key facts of the Iranian affair. Everything began just like a detective novel. At the beginning of November

the American press received a report from Beirut that former National Security Adviser R. McFarlane had "turned up" in Tehran with a phony Irish passport. He had flown there with some other men in a plane with no distinguishing marks and had brought a shipment of weapons, a bible signed by President Reagan, and a cake shaped like a key, which was supposed to symbolize the U.S. desire to "unlock" relations with Iran. Incidentally, the cake was eaten at the airport by some hungry Iranian "guards of the revolution."

Reporters rushed to the White House. Under their pressure, the White House press office had to admit that McFarlane was on "an especially important mission," but nothing was said about the shipment of weapons to Iran. Eventually, however, thorough explanations were required. The "great communicator" himself took the responsibility for this. First the President made an announcement on national television, and on 19 November he held a press conference, which confused the issue even more. The most important thing about this, however, was that it was absolutely clear that the President was "hedging" and was even resorting to outright lies.

The head of the White House began the press conference, which was intended, according to the official announcement, to "explain to the American people" the scandalous facts that had come to light regarding arms shipments to Iran, in an extremely resolute tone of voice. He repeated the allegations that the shipments consisted "only of defensive weapons and spare parts" and "fit into a single plane," that they were intended to improve relations with Iran, and even that they had been undertaken for the purpose...of stopping the Iran-Iraq war. Besides this, the President admitted that there were serious disagreements within the administration over the arms shipments to Iran and that the final decision on the matter was his own responsibility.

To quell the wave of indignation in the United States and in many other countries in connection with the disclosure of the administration's attempts to fan the flames of the Iran-Iraq war and thereby further U.S. hegemonic ambitions, Reagan announced that he had "given the order not to send any more arms to Iran." He did not, however, feel the need to deny the fact that the directive he had signed on 17 January 1986 to authorize the "secret initiative" had not been rescinded and was therefore, as White House spokesman L. Speakes said, "technically still in force."

The reporters at the press conference were obviously not satisfied with the President's explanations and they literally bombarded him with questions to learn the real purpose of the "secret initiative." Why had the President decided to bypass the Congress and violate the previously announced policy of "strict neutrality" in the Iran-Iraq war and the official U.S. embargo on arms shipments to the warring sides? Would the President confirm the report that the United States had authorized the shipment of arms to Iran by other countries, especially Israel?

At this point the President began to contradict himself. For example, he categorically denied that the United States had any knowledge of shipments of American weapons to Iran by other countries.

This was followed by questions: But what about Israel? After all, even White House Chief of Staff D. Regan had admitted that this country had sent American weapons to Iran in September 1985.

The President issued another categorical denial. This obvious concealment of the truth astounded the reporters. It did not escape notice, and Reagan's advisers quickly took action. As soon as the press conference was over, the White House distributed a "correction," in which the President had to clear up a "misunderstanding of one of my answers" by admitting that "there was a third country involved in our secret project with Iran."

Reagan's extra explanation of the reasons for the shipment of arms to Iran aroused openly sarcastic responses. This is not surprising, because the President declared: "It is our aim to bring Iran back into the family of democratic nations." This revealed the President's unique definition of democracy. If he could call the shah's Iran, where the terrorist behavior of the SAVAK secret police reigned, a member of the "democratic family," then he would say anything at all! This, then, is the kind of "democracy" the United States is trying to return to people by interfering in the affairs of Iran and of many other countries, such as Nicaragua, Angola, and Afghanistan, the "salvation" of which the President called for in a speech at the Ethics and Public Policy Center in Washington on the day before the press conference.

The President also contradicted himself in other statements. For example, he said that the U.S. support of the contras was "not intended to overthrow" the Nicaraguan Government, although the President himself and other members of the administration had previously never denied that what the United States wanted was precisely the "removal" of the Sandinista government.

"Mr President," one reporter said at the press conference, "the American people simply do not believe you."

Here is another interesting fact. Just before the President's press conference, THE WASHINGTON POST published several questions various people had asked in the hope that the head of the White House would answer them at the press conference. Editor D. Howell of the ST. PAUL PIONEER PRESS, a Minnesota newspaper, asked: "How do you expect to restore our faith after you have lied to us?"

As later events proved, this was far from an idle question.

The tornado of scandal grew stronger. In search of a solution, the President called the heads of the foreign policy establishment to the White House for an emergency meeting on 25 November. White House Deputy Press Secretary Speakes reported that the meeting was held to discuss future U.S. policy in the Middle East and relations with Mideast countries, including Iran. Newsmen immediately saw this report as the administration's latest attempt to extinguish the mounting flames of scandal, especially now that the flames were being fanned by new leaks to the press. It is significant that people were scandalized not by the administration's cynical breach of its own assurances of "strict neutrality" in the Iran-Iraq war, but by its failure to inform

Congress and the United States' closest allies of its intentions. The latter, incidentally, were urged by Washington to unconditionally observe the embargo on arms shipments to Iran and Iraq because they were at war.

To quell the wave of indignant criticism, President Reagan alleged that the shipments of American arms to Iran were "really minuscule." All of the weapons sent by the United States and a "third country" (i.e., Israel), he asserted on several occasions, including the press conference on 19 November, "fit into a single cargo plane" and therefore could not enhance the combat capabilities of the Iranian armed forces and prolong the war.

Refuting these allegations, Senator D. Bumpers said that the United States had agreed to send Iran weapons worth 100 million dollars. Furthermore, THE WASHINGTON POST reported that 250 million dollars' worth of weapons had been sent to Iran just from Israel with the United States' approval from 1981 to 1983. It was then learned from a UPI report that was then confirmed by "sources within the administration" that even before the President had "allowed himself" to violate the embargo on arms shipments to Iran in January 1986, shipments had already been made by the Central Intelligence Agency--that is, directly by the United States--as well as through Israel. The "defensive arms" included antitank and antiaircraft missiles, and not in a "minuscule" quantity, but by the thousands.

And this was far from the only lie connected with the Iranian affair. The President and other high-level members of the administration proceeded to protect each lie with a new one with uncommon ease.

Under these conditions, how can the administration function in the remaining 2 years of Reagan's term? Is there a way out of the situation? For a long time these matters were of central importance to the administration, to Congress, and to the public. Dodging questions, the White House began a frenzied search for scapegoats to blame for all of the gaps and lies, hoping to divert the flames of criticism away from the administration in general and from President Reagan in particular and to retouch their image.

The first person chosen to be a scapegoat was former National Security Adviser R. McFarlane, but he was only a "switchman" following White House orders. The matter went so far that D. Regan, a man who attends all meetings in the Oval Office and who is described by friends as "the President's most influential adviser," publicly accused McFarlane of "giving the President the lousy advice" resulting in this "lousy situation."

No one, however, took these accusations seriously. After all, McFarlane ceased to be an official adviser long ago, and giving the President advice is certainly not part of his job now. Furthermore, it is unlikely that the head of the White House, who is surrounded by a big crowd of high-level advisers and aides, would pay attention to the ideas of a former adviser he once dismissed from office.

For this reason, the search for scapegoats continued. There were rumors in the American capital that several administration officials directly involved

in the "Iran operation," including Regan and Poindexter, would have to resign soon. People also said that Secretary of State G. Shultz might have to go, but that he would be dismissed for "disloyalty" to the White House. The fact is that Shultz dissociated himself from the Iranian affair: He implied that he had nothing to do with the planning and performance of the operation. The press reported that this aroused the anger and indignation of Reagan himself and of his wife, the "First Lady," and that, what is equally important, the "California Mafia," a group of personal friends of the President with considerable economic and political influence, was up in arms against Shultz.

A newspaper close to the White House, the WASHINGTON TIMES, even named former Republican Senator H. Baker, a man who is "aiming at" the presidency in 1988, as Shultz' probable successor. These rumors were fueled during one of President Reagan's brief meetings with reporters, when he was being photographed with the visiting head of the Haitian military regime. When he was asked whether or not there would be any changes in the administration, the President replied: "No comment one way or the other."

On the day this article was written, the White House abandoned two scapegoats--Poindexter and North. There could still be some resignations and transfers, however, and there are still questions about the long-range effects of the Iranian affair on the President himself, on the National Security Council staff, on the administration, and on the country as a whole. There is every indication, however, that the main issue will be narrowed down.

The preconditions for this include a fact that is probably more important than the concealment of the truth by the President and other cabinet members. This is the fact that the NSC staff, with the direct connivance of Reagan and top cabinet members, or, more precisely, as a result of their thoroughly considered and purposeful policy, ceased to be a purely administrative and coordinating body long ago and became an agency making and pursuing policy with no regard for American laws or the Congress. In this way, the principle of checks and balances, which is thought to be so fundamental here, was violated or even discarded. What is more, statements by top cabinet members revealed that extremely complex and sensitive spheres of foreign policy--with regard to Iran, to Nicaragua, and to Israel--were left completely to Rear Admiral Poindexter and Lieutenant Colonel North. If we are to believe the President and the attorney general, these men did their work in the deepest secrecy, literally on their own responsibility and at their own risk, without informing the President or the State Department of their plans! But who could believe this?

Meanwhile, the revelations continue. A UPI report citing an anonymous White House source said that White House Chief of Staff D. Regan was directly involved in planning the Iranian operation. He approved the details of the operation, including the transfer of the proceeds from the sale of arms to Iran to the Nicaraguan contras. According to this source, Poindexter and North regularly made progress reports to Regan: "Regan was informed of everything from the very beginning. He was informed each time anything happened--for example, he was informed of how the Iranians reacted to the initial

proposals." According to this source, Reagan had known about the contacts with Iran since summer 1985. The only aspects of the operation he did not know were minor details, such as the numbers of the bank accounts where the proceeds from the arms sales were deposited.

The criticism in the press focused more and more on D. Reagan and CIA Director W. Casey. "The two men most likely to have to resign are Donald Reagan and William Casey. This is indicated by the entire course of the preliminary investigation. Unless it is stopped, these two will be the targets," declared Democrat L. Aspin, chairman of the House Armed Services Committee.

There were also reports that Secretary of Defense C. Weinberger was involved in the Iranian affair. He threatened to prohibit the transfer of the arms needed for the completion of the transaction unless he was informed of all of the details. Eventually, the Pentagon had to pay millions of dollars, representing the value of the weapons removed from Defense Department warehouses.

It is indicative that some high-level administration members were in a hurry to dissociate themselves from the Iran scandal. Vice-President Bush said, for example, that he knew nothing about the matter and had been consulted by no one.

The following remarks illustrate the attitude toward the administration's attempts to hush up the scandal and thereby minimize its catastrophic implications for the remainder of Reagan's term.

The facts disclosed have "undermined trust in the President and in his ability to govern the nation," Chairman P. Rodino of the House Judiciary Committee write in a letter to E. Meese.

The President has lost control of foreign policy; "an atmosphere of irresponsibility and lawlessness" reigns in this sphere, said Democratic Senator G. Hart.

An article in the WASHINGTON POST said: "The saddest thing is the failure of another presidency. The tragically quick collapse of Ronald Reagan's administration in the last 4 weeks has poisoned the holiday atmosphere and raised doubts about the new year. It seems almost incredible that just 4 weeks ago Reagan was asking the voters to do him a favor by keeping the Senate under Republican control. Their answer was no, and the loss of the Senate majority by the Republicans on 4 November was a serious enough blow to Reagan's hopes. A much more serious hurricane was started that day, however, when the first reports were heard of the secret sale of weapons to Iran by the United States.... Now these ill-considered actions and the secrecy surrounding them, and the secret financing of efforts to overthrow the Sandinista government in Nicaragua are public knowledge, and the consequences of these exposures have had a serious effect on the President. He resorted to his favorite tactic--televised speeches--and made several appearances on television to explain what had happened. Each time the unanswered questions became more obvious, the inconsistency of the official story became more striking, and the reaction became more skeptical."

"The cowboys working out of the White House basement bypassed the spirit, if not the letter, of the American laws designed to prevent unlawful actions. President Reagan is now being described--and it is possible that this will continue until the end of his term--either as an incompetent leader who has lost touch with reality, or as an inveterate liar," another WASHINGTON POST article said.

The same newspaper printed an article by the well-known correspondent M. McGrory, which specifically stated: "Even before Meese made his announcement in the White House press office, it is common opinion that the walls of this building were already being licked by the tongues of these flames, ever since the world learned on election day (4 November 1986--N.T.) that Ronald Reagan was dealing with the Iranian terrorists. Meese informed us that dynamite had been discovered in the White House basement. This means that the White House could blow up before it burns to the ground.... It turned out that Iran was only a prelude to the real scandal.... Reagan has surrounded himself with people who do not know the difference between right and wrong. This makes us wonder if he himself knows the difference.... To all intents and purposes, the Reagan Administration is an empty shell."

According to the CHRISTIAN SCIENCE MONITOR, "the Reagan Administration, which has already been attacked and has undergone deep rifts in connection with the arms shipments to Iran, is now the target of an avalanche of criticism in connection with the reports that the proceeds from the secret arms deal were diverted to contra leaders in Nicaragua. What is stake now is not only the personal prestige of President Reagan, but also his ability to direct foreign policy in the remaining 2 years of his term in office. The reports have created new problems for the already cornered administration by raising questions about the President's ability to lead the country in the next 2 years.... Whatever the outcome of the conflict, the Reagan Administration will have to deal with the serious problem of trust, which could complicate the pursuit of American foreign policy in the future, especially in the Middle East and Central America. America's relations with the European allies and with the Soviet Union have also been affected by the administration's futile attempts to explain its actions in Iran."

THE NEW YORK TIMES arrived at the following conclusions: The Iran operation is viewed by many people as a natural part of the "cowboy" style of administration foreign policy. This style was also demonstrated in the approach to talks with the Soviet Union, in the campaign of disinformation against Libya, and in the armed adventures against Nicaragua. The deal with Iran "was a secondary symptom of a deeper crisis. Bad policy and reckless advisers can be replaced. Trust, on the other hand, cannot be replaced, and the Bickford fuse now leads directly to the White House Oval Office."

The programs of the larger mass media--television and radio--have been literally inundated with commentaries and judgments of this kind.

These commentaries and judgments need no additions or deletions. No matter how carefully the investigations of the Iran operation are conducted, its initiators and executors have already made a fatal mistake: They showed the

American people and the rest of world too much about the functioning of the U.S. Government and demonstrated quite clearly that the policy of the Reagan Administration is based on the "principle" of saying one thing and doing another.

As the saying goes, Who will believe you after once you lie? And in this matter it was far from once that a lie was told....

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THE PENTAGON AND AUSTRIAN NEUTRALITY

Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 1, Jan 87
(signed to press 17 Dec 86) pp 67-69

[Article by N.A. Ayseli: "The Pentagon and Austria"]

[Text] The Republic of Austria has conducted a policy of permanent neutrality for more than 30 years. The policy is solidly based on the State Treaty on the Restoration of Austrian Independence and Democracy, signed in Vienna on 15 May 1955 by the foreign ministers of the USSR, United States, Great Britain, France, and Austria.

But it is precisely Austria's consistency in conducting the policy of permanent neutrality that seems to displease NATO circles and, in particular, Washington. Pentagon strategists see this country, which is located between states belonging to different social systems, as the perfect accessory.

This was unequivocally announced by U.S. Secretary of Defense C. Weinberger during his 2-day stay in Vienna in May 1986. "To the degree that the Austrian Armed Forces demonstrate a convincing capacity for self-defense, the United States sees a positive contribution to the NATO concept of deterrence," he said.

This was the first official visit by a Pentagon chief in the history of neutral Austria. The purpose appears to have been the exertion of pressure on the neutral country to force it to elucidate, as the American secretary said, "the alpine republic's contribution to the defense of the West." Ignoring the neutral status of Austria, Weinberger related the state of its armed forces directly to the NATO military doctrine, flagrantly disregarding the existence of the State Treaty.

The Pentagon chief also used his visit to urge Austrian industrial firms to take part in the American "Star Wars" plans, expressing the "hope" that they would "show an interest in SDI contracts."

The assault on the Austrian policy of neutrality was continued with the straitforwardness characteristic of a general by the supreme allied commander of the NATO forces in Europe, B. Rogers. When he was interviewed by WOCHENPRESSE magazine in June, he said: "It is Austria's duty to defend its

territory by all available means, on land and in the air, regardless of the direction from which the country is attacked. This is extremely important to us (that is, to NATO--N.A.) because the territory of Austria lies between the central and southern NATO zones. It would be dangerous to allow an enemy invasion between these regions." In an appearance on Austrian television soon afterward, Rogers displayed strategic maps to prove that Austria had been assigned "its own place" in the military plans of the North Atlantic alliance.

According to these plans, the neutral status of Austria could be violated in a military conflict. The "strong defense" (a term commonly used in the Pentagon) of Austria is in the American interest.

But is it in Austria's interest? The ban on the deployment of missiles in Article 13 of the State Treaty has been debated for more than a year in Austria. According to some high-ranking Austrian Army officers, this ban is obsolete and must be lifted if the country hopes to create reliable and independent "deterrence" potential. They also stress that the United States and the NATO command "sympathize" with Austria's need for a better defense, particularly air defense.

In connection with the ban on missiles, military experts estimate that the Austrian air force will have to have 100 modern fighter planes to secure the air defense of the country. Economic considerations and the protests of the Austrian peace movement, however, forced the government in Vienna to reduce the number to 24. Nevertheless, the expediency of acquiring even these 24 "air space guards," as they are officially called, is still being debated by prominent statesmen, members of political parties, parliament, labor unions, etc. The people who support the rearming of the air force are stubbornly repeating that "Austrian sovereignty should not end 5 meters above the ground." One of the arguments in favor of the purchase of the fighter planes is the assertion that, even after their acquisition, the Austrian air force will be much smaller than the air forces of Sweden and Switzerland, whose "neutrality is never in question." These people stress that when Austria declared neutrality, it "simultaneously made a commitment to defend it by all available means."

No one is disputing this. But new Minister for National Defense H. Krüenes said the Austrian air force should be equipped with missiles when he appeared on television on 3 June 1986. Furthermore, he made it clear that the ban on these weapons in the State Treaty could be circumvented. "Guided battlefield weapons," he said, "are indisputably necessary, and treaties concluded at a specific time cannot be interpreted in the same way at another time." Remarks of this kind--and they are supported by the leaders of the Socialist and Austrian People's parties and by several members of the government--have been protested vehemently by the Austrian public and by members of the peace movement who object to allocations for the purchase of new types of weapons.

All of these debates, the facts testify, are upsetting NATO circles. Judging by all indications, the acquisition of missiles and fighter planes by Austria would be consistent with the Pentagon's strategic plans, especially the plan to turn Austria into what is known as a "NATO security zone."

It is not surprising that as soon as R. Loder had been appointed U.S. ambassador to the Republic of Austria, after he had spent 3 years as the U.S. deputy assistant secretary of defense for NATO affairs, he began giving the Austrian Government advice on an extremely sensitive issue--how and with what the Austrian Armed Forces should be equipped.

In an interview in Austria's PRESSE newspaper, he expressed "serious doubts about the effectiveness of Austrian defense because of the State Treaty ban on missiles." In an attempt to convince the Austrian Government of the need to acquire missiles, the American diplomat essentially resorted to outright intimidation. "I feel it would be impossible to create a strong defense without missile protection," he said. "Vienna needs missiles to keep the Soviet Government from seeing Austria as a direct road to the West."

As for the myth of the "Soviet military threat," the Pentagon and NATO are known to have used it extensively for the purpose of fueling the militarist fever and pulling European and other states into the arms race hearse.

The development of Soviet-Austrian relations in various fields is taking a completely different road than the one envisioned by Ambassador Loder. The industrial exhibit from the Republic of Austria was a big success in Moscow in April 1986. Then Chancellor F. Sinowatz came to the Soviet Union for the opening ceremonies. First Deputy Chairman of the USSR Council of Ministers and Chairman of USSR Gosplan N.V. Talyzin welcomed the Austrian governmental delegation and stressed that Soviet-Austrian relations were developing on the solid foundation of the State Treaty of 1955 and the mutually beneficial agreements concluded subsequently by the two countries. During the visit F. Sinowatz was received by M.S. Gorbachev. During their conversation, M.S. Gorbachev underscored the role of Austria and other neutral and nonaligned countries in the efforts to keep the peace and improve international relations. The Soviet Union adheres to the principle of peaceful coexistence and good-neighbor relations in its dealings with Austria.

The conclusion of the State Treaty and the adoption of the law on permanent neutrality by the Austrian parliament on 26 October 1955 became milestones in the development of the Republic of Austria and served as the basis for its relations with other states in subsequent years.

The four powers--the USSR, United States, England, and France--displayed a realistic approach when they decided to conclude the State Treaty. The last three decades have been enough time to acknowledge how right Austria was to sign the treaty and pass the law on neutrality. These steps have had a beneficial effect on the Republic of Austria and on the atmosphere in Europe as a whole. The resolution of the Austrian problem made a substantial contribution to international detente and confirmed the viability of the principle of peaceful coexistence. It ended the dangerous policy of turning Austria into an "alpine fortress," a policy conducted in the first years after the war by the United States and other Western powers. Austria was given an opportunity to behave with dignity in international affairs and to make a positive contribution to the resolution of European and world problems.

Permanent neutrality is the most important element of Austrian foreign policy. The Austrian support this policy, and this is attested to by the results of the elections to the Austrian National Council (the lower chamber of parliament) on 23 November 1986.

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CSO: 1803/05

THE CANADIAN ECONOMIC SITUATION IN THE 80'S

Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 1, Jan 87
(signed to press 17 Dec 86) pp 70-76

[Article by Ye.Ye. Starostenkova]

[Text] The Canadian economy entered the 1980's with a heavy load of problems left over from previous decades: the high rate of inflation, the slow growth of employment and labor productivity, and the instability of oil and petroleum product prices. The period of rapidly rising interest rates also began at the turn of the decade. This was the background for the crisis of 1980-1982, which marked the beginning of the seventh postwar economic cycle in Canada. We will review the evolution of this cycle in the last few years, the new episodes it added to the country's economic history, and the changes it made in the socioeconomic policy of the Canadian Government.

The first signs of the crisis were seen in the nation's economy in the second half of 1979. A slump in industrial production continued for three quarters and was then followed by livelier economic activity in the middle of 1980. This did not last long, however, and the economy was in a state of crisis again in June 1981, and this time it was a much more severe crisis. The decline of industrial production continued for 19 months (from June 1981 to December 1982) and was equivalent to more than 10 percent. There was a real decrease of 6 percent in the GNP during this period.¹ Canadian economists called the crisis of 1980-1982 the "Great Recession."

The crisis revealed the overaccumulation of capital on a vast scale. For several years investments in fixed capital had been made in record amounts, and the increase between 1979 and 1981 was equivalent to 21.2 billion dollars. Commodity stocks also grew rapidly (an increase of 5.7 billion dollars in the same period).² The reduction of industrial output in the crisis year of 1982 was accompanied by the abrupt decline of accumulation rates. Investments were reduced by 9.7 percent, and commodity stocks were reduced by a figure astronomical for Canada--9 billion dollars.

There was an absolute decrease in employment for the first time since the end of the 1950's--3.3 percent. The decline was particularly dramatic in industry--9 percent. As a result, the level of unemployment jumped to 12.7 percent in December 1982. The reduction of the number of jobs was accompanied by

changes in the structure of employment, leading to a higher percentage of part-time and temporary employees. The amount of time required to find a job increased perceptibly. For example, whereas people who had been unable to find a job for half a year or more represented 18.8 percent of all the unemployed in 1980, the figure was 25.7 percent in 1982.

Industrial production reached its lowest point in December 1982, and the economy entered the recovery phase in the beginning of 1983, bypassing the phase of depression. There was an increase of 3.3 percent in the GNP in constant prices in the first year after the crisis and of 5 percent in 1984. The respective figures for industrial output were 5.3 and 8.8 percent.³ In spite of the relatively high indicators of economic growth, however, the post-crisis development of the national economy was described by Canadian economists as unbalanced. Higher consumer spending and a significant export volume were the two main factors contributing to the recovery of the economy and the absorption of commodity stocks.

Conditions were exceptionally favorable for Canadian exports, especially to the United States, throughout 1982, 1983 and 1984. The Canadian economy was hit harder by the crisis than the American economy. Foreign trade here, however, played its amortizing role (in contrast to the United States, where foreign trade "worked for the crisis") and then aided in the transition to recovery. Canada emerged from the crisis with a sizeable positive balance of trade and retained it until 1985. It was aided by the combination of low investment demand in Canada and high investment and consumer demand in the United States, the considerable growth of labor productivity in Canada with the much slower growth of wages, and the higher exchange rate of the American dollar.

The U.S. economy emerged from the crisis quickly. In spite of relatively low capacity load indicators, there was an investment boom in the United States. In the first six quarters after the crisis⁴ investments in residential construction increased by 30.6 percent, and investments in industrial construction increased by 16.4 percent. This established favorable conditions for Canadian exporters: The Canadian mining, chemical, pulp and paper, timber, and wood-working industries developed dynamically. The automotive industry was prominent among the rapidly developing branches of the processing industry. Its exports increased by 28 percent just in 1983, at a time when exports of all other finished goods displayed only a small increase.

The period of recovery in Canada, in contrast to the United States, did not include an investment boom. Investments in fixed capital continued to decline in 1983 (by 5.7 percent) and did not rise until 1984, and even then the rise was quite modest--0.7 percent. Even this insignificant increase, however, was exclusively the result of vigorous government investment activity; private investments in fixed capital decreased by 0.5 percent in 1984.⁵ The most pronounced decrease was in power engineering, which accounts for an average of around 30 percent of total investments in fixed capital. The investment process remained weak in the financial sphere and the insurance business, as well as in the processing industry. The load of capacities here increased slowly and represented 72.4 percent in 1983 and 73.6 percent in 1984. Only 5 of 19 industries had a capacity load of over 80 percent by the end of 1984.⁶

In general, investments in fixed capital at the beginning of 1985 were 18 percent below the 1981-82 figure (21 percent below for investments in industrial construction and almost 16 percent below for machines and equipment).⁷

Investments in residential construction fluctuated dramatically. Whereas private investments in this sphere decreased by 21 percent in 1982, they increased by 25.3 percent in 1983 and then decreased again by 4.2 percent in 1984. This was partly due to the expiration of government programs to stimulate investments in housing construction in May 1983. As a result of this, investments in residential construction were 61 percent higher than the figure for the previous 6 months in the first half of 1983 and then declined in the second half of the year.

Labor productivity in industry rose quickly during the recovery phase--at a rate of 2.5 percent a year. This indicator is higher than all Canadian indicators for the 1970's and current American indicators. At the same time, the growth rate of wages declined dramatically. The average rate in 1983 and 1984 was far below the rate of increase in consumer prices. The proportion accounted for by wages in the GNP declined from 58.5 percent in 1982 to 55.8 percent in 1984. This was made possible primarily by the high rate of unemployment. Its post-crisis dynamics were paradoxical: As the economy recovered, this rate only rose--from 11 percent in 1982 to 11.3 percent in 1984.

Average expenditures on manpower were so low in Canada that the increase in 1984 was the lowest rate for all of the OECD countries (1 percent). In the processing industry these expenditures even decreased--by 2.2 percent. As a result, the competitive potential of this sector of the Canadian economy (measured in terms of proportional expenditures on manpower) increased by 5.7 percent.⁸

In this way, conditions were created in the first half of the 1980's for the quicker growth of exports in comparison to imports. In the crisis year of 1982, for example, export trade declined imperceptibly, in contrast to the sharp decline in imports. In 1983 and 1984 Canadian exports increased to 93.65 billion dollars in current prices. Canadian imports in current prices did not reach their pre-crisis level until 1984. As a result, the positive balance of trade more than doubled in 1982 and reached a record level for the country in 1984--20.7 billion dollars.

The crisis-related reduction of profits and the resulting reduction of dividends paid abroad stabilized the deficit in interest and dividend payments and the deficit in the balance of services in general. For the first time since 1971 Canada had a positive balance of current operations in 1982 (2.9 billion Canadian dollars).⁹ The balance remained positive in the next 2 years.

The use of surplus commodity stocks continued during the first year after the crisis; they were reduced by 1.2 billion dollars. In 1984 these stocks again displayed a tendency toward growth. The correlation of stocks to sales, however, was far below the long-term average in the processing industry and in the economy as a whole. In general, the quick and substantial reduction

of commodity stocks continued throughout the recovery phase, allowing for the growth of industrial production and the GNP with reduced investments. As a result, after a year and a half of recovery, during which time demand was satisfied largely with reserve stocks rather than by increased production, the growth rate of production was almost equal to the growth rate of demand.

Corporate profits returned to the pre-crisis level quickly, reaching it at the beginning of 1984 and surpassing it by the end of the year. The proportion accounted for by corporate profits before taxes in national income rose by 1.3 percentage points in 1984 and totaled 12.1 percent. Canada was far ahead of the United States in terms of profit growth rates in the post-crisis period.

The financial status of large industrial companies improved. The correlation of debts to stock capital, which was equivalent to 0.96 at the end of 1982, declined to 0.80 by the end of 1984. Periods for the repayment of loans were prolonged.¹⁰

Low inflation indicators are a distinctive feature of the recovery phase of the current cycle. The consumer price index rose 4.4 percent in 1984, as compared to 5.8 percent in 1983 and 10.8 percent in 1982.¹¹ This was largely due to the high interest rates. Although the nominal rates displayed a noticeable downward trend in 1982, real interest continued to rise until the second half of 1984.

The dynamics of short- and long-term interest rates display clear cyclical patterns. The mounting problem of liquidity accompanying the rapid accumulation of capital in 1981 and 1982 raised the cost of short-term credit, and the livelier business activity of subsequent years increased the need for long-term credit: The rates were higher for long-term credit than for short-term credit in 1983, as is usually the case in periods of declining interest rates. The range of interest rate fluctuation, however, depended less on the state of the Canadian loan capital market than on the evolution of the American market. Interest rates in the Canadian market, which followed the dynamics of American rates throughout 1984, rose in the first half of the year and then fell slightly in the second half.

A positive balance of current international payments allowed Canada to import less loan capital. The volume of government securities distributed abroad, however, remained high.

A sizeable flow of incoming direct foreign investments was recorded in 1984. This was connected less with the country's appeal to foreign investors than with the abatement of the "Canadization" process (the purchase of foreign corporations). Exports of Canadian capital in the form of direct investments became more active in 1984 and amounted to 2.9 billion American dollars. In general, Canada is still a net exporter of capital in the form of direct investments and a net importer of loan capital.

Throughout 1984 the exchange rate of the Canadian dollar displayed a tendency toward decline. Official foreign currency reserves decreased by a billion

American dollars. To maintain the exchange rate of the national currency, the government borrowed 1.4 billion American dollars from foreign banks and private Canadian banks.¹²

Industrial production reached its pre-crisis maximum in the fourth quarter of 1984, and the economy entered a period of prosperity. During the first year of this period, the GNP increased by 4.5 percent, employment rose 2.8 percent, and the proportional number of unemployed in the economically active population fell to 10.2 percent.

The conditions securing economic growth changed in 1985. Internal factors became the main stimuli. The expansion of final demand (by 5 percent in comparison to 1984) coincided almost exactly with the GNP growth rate. For the first time since the crisis, investments were the main stimulus of economic activity. Investments in fixed capital increased by 6.6 percent. Furthermore, investments in industrial production continued to rise at the quickest rate--7.7 percent; investments in machines and equipment rose at a rate of 5.7 percent. The investment process, however, was distinguished by exceptionally uneven sectorial patterns. Five industrial groups--oil and gas production, the production of paper and related products, metal extraction, housing construction, and transport machine building--accounted for the entire increase in investments in 1985. In the processing industry as a whole there was no increase until 1986.¹³ High consumer demand (4.9 percent higher in 1985) also stimulated economic growth. The rate of inflation continued to drop. The consumer price index rose 4 percent.

It is significant that the growth of employment did not lead to the decline of labor productivity. It rose 1.6 percent in 1985. This indicator is extraordinarily high for the third year after a crisis. Nominal wages increased by 3-4 percent.¹⁴

The financial status of corporations continued to improve during the period of prosperity. There was an increase of 4.2 percent in profits and a significant decrease in the growth rates of corporate debts, especially in non-resource sectors.

The period of prosperity increased the demand for imported goods, both investment commodities and consumer goods. Imports surpassed exports in 1985 (5.6 percent as compared to 4.2 percent), and the consequent reduction of the positive balance of trade led to a negative balance of current operations.

Interest rates displayed a more distinct downward trend in 1985. The interest on short-term loans was 9.6 percent per annum on the average. The interest on long-term credit also displayed a significant decrease--to 11.8 percent on the average.¹⁵

The Canadian dollar has continued to lose value in relation to the American dollar. At the end of December 1985 it was exchanged for 71.53 American cents.

The comparison of Canadian and U.S. post-crisis development indicates that Canada was distinguished by higher GNP and labor productivity growth rates in

general. The growth of corporate profits was much quicker in Canada. There was a particularly large gap between indicators of profits after taxes. One of the main features of U.S. economic development in 1983-1985 was the investment boom, which was particularly noticeable in the first year and a half after the crisis. In Canada, on the other hand, investments in fixed capital had not even reached the level of the period of economic crisis by the end of 1985. These differences in investment activity were connected to a considerable extent with the state of foreign trade in the two countries. Whereas Canada had a large positive balance of trade, which became something like a "substitute for investment demand," the United States has had a huge deficit in foreign trade in the post-crisis period.

There was a striking reversal in the dynamics of expenditures on wages in Canada. Although its labor productivity growth rates were higher than in the United States, the rate of increase in U.S. expenditures on wages was almost three times as high as in Canada.

A review of the development of the economy in the last 4 years points up several significant differences between the current economic cycle in Canada and previous cycles. For example, the emergence from the crisis of 1980-1982 was a slow process, but indicators of economic prosperity in 1984-1985 were relatively high. Labor productivity rose quickly, commodity stocks decreased dramatically, and the rate of inflation declined (no abrupt price increases were recorded even in the period of prosperity). The slow growth of investments in fixed capital was not typical of previous cycles, and another uncommon feature of the current cycle was the continued growth of unemployment for 2 years after the crisis. The reduction of unemployment and more active investment were not recorded until 1985.

Sizeable regional disparities are characteristic of the Canadian economy. A distinctive feature of the 1980's has been the weak economic activity of the Western provinces, especially Alberta and British Columbia. They prospered during the period of the high world demand for raw materials and energy resources, but the reduction of their traditional export markets dealt a severe blow to their economies.

The western provinces, especially Alberta, entered the phase of economic prosperity almost a year later than other regions. In recent decades the indicators of employment growth have been high here, unemployment has been low, and the growth of capital investments has exceeded the national average. During the crisis of 1980-1982, however, the rate of unemployment in these provinces was higher than the average, it declined more slowly during the period of prosperity, and investments were distinguished by the greatest absolute reduction.

Regional differences in the level of unemployment are characteristic of Canada. A relatively low level is characteristic of Ontario and the plains provinces, and a high level is characteristic of Quebec, British Columbia and the Atlantic provinces. But whereas the rate of unemployment in the Atlantic provinces was twice as high in the crisis year of 1974 as in Ontario, with a level of 8.3 percent, in 1984 the level here was already 15.4 percent with the

retention of the same regional balance. This suggests that the promotion of increased employment in this region should be one of the priorities of Canadian economic policy.

Until 1984—that is, under the Liberal government—government economic policy, in spite of the promises to improve government finances, was aimed at stimulating business activity primarily through higher government spending. The result was a larger budget deficit. In fiscal year 1984 the federal budget deficit amounted to 29.8 billion dollars (or 7.1 percent of the GNP). The total government debt at the end of the fiscal year was equivalent to 199 billion dollars. Just the servicing of this debt costs 18.2 billion dollars. To finance this debt, Canada had to keep its interest rates higher than American rates. In this way, the American policy of driving up the cost of credit dictated the reduction of the demand for loans in Canada. This is why the Conservative Party program for the reduction of the federal budget deficit seemed so appealing.

The Conservative election platform promised the Canadians higher employment and a smaller government debt. In spite of the importance of the first promise, however, it was quickly relegated to a secondary position while budget economy became the top priority of economic policy.

The reduction of the current budget deficit is being accomplished through the reduction of government spending on the one hand, and changes in the tax system on the other. At the end of fiscal year 1985 the federal budget deficit amounted to 28.8 billion dollars, or 6.3 percent of the GNP.

The budget economy measures undertaken by the government in FY 1985 included cuts in aid to families, reduced payments to provinces for public health and education programs, and changes in the budget financing of the Canadian Pension Fund.

Some tax reforms were instituted. For example, the tax deductions for investments in research and development were cancelled, and a minimum tax rate of 25 percent was set for corporate profits. These measures reduced the federal budget deficit by 4.7 billion dollars in comparison to the level it might have reached if the previous structure of government expenditures and income had been retained. The reduction of the current deficit, however, did not reduce interest payments on the government debt (they increased by 0.3 percentage points in relation to the GNP).

The FY 1986 budget, approved in February 1986, envisages the further reduction of the deficit to 22.6 billion dollars (4.6 percent of the GNP). By 1990 it is to be reduced to 11.1 billion dollars.

The budget economy measures for FY 1986 envisage salary cuts for top-level government officials, the reprivatization of government corporations, and cuts in spending on nonrecurring budget items. The minister of finance announced the government's renunciation of earlier plans for an increase in Canadian aid to developing countries. This aid will not exceed 0.5 percent of the GNP in the next 5 years.

The reduction of the growth rate of military spending is planned for FY 1987. There was a real increase of 2.75 percent in these expenditures in the current fiscal year, and the projected indicator for next year is 2 percent.

Changes in the tax system are becoming the main emphasis in budget policy. According to Minister of Finance M. Wilson, the purpose of the tax reform is "the elimination of selective privileges and the creation of a system promoting the growth of initiative in all spheres under the conditions of lower tax rates."¹⁶ The draft tax reform has not been officially submitted for discussion yet, but some of its elements have already been reflected in the current year's budget.

The preferential tax rates for investments have been eliminated; the tax deductions for investments in the processing industry in the country's depressed regions, which were always more extensive under a Liberal government, have been reduced; the practice of the preferential reassessment of commodity stocks has been disallowed.

On 1 July 1986 the personal income tax rates rose 3 percent, the federal sales tax rose 1 percent, and a supplementary tax on tobacco and alcohol sales was instituted. At the same time, the supplementary tax on large corporations will be cancelled on 1 January 1987 and will be replaced by a general 3-percent increase in corporate taxes. In July 1987, however, the gradual reduction of corporate taxes is to begin; by 1989 the base rate of federal taxes will decline from 36 to 33 percent. By this time companies in the processing industry will pay taxes equivalent to 26 percent of their profits instead of the present 30 percent. Small businesses will retain their preferential tax structure, and their tax rate will decline from 15 to 13 percent.

The Conservative government's measures have changed the structure of government income (a higher percentage of personal income taxes and a lower percentage of corporate and indirect taxes) and expenditures (a lower percentage of expenditures on the purchase of goods and services, reduced federal payments to provincial governments, and much lower government capital investments).

Economic conditions have been exceptionally favorable for the policy of budget economy. The Conservatives took charge of the government in fall 1984, when the economy had already emerged from the crisis. Canadian economists have calculated that approximately half of the increase in the budget deficit in the early 1980's was caused by cyclical factors. The subsequent period of economic prosperity could have reduced the current government debt even without any special government intervention.

It is unlikely, however, that these favorable conditions will last for a long time. The government's projected reduction of the budget deficit to 2.3 percent of the GNP by 1990 seems quite doubtful.

The post-crisis development of the Canadian economy proved that most of the characteristic problems of Canadian economic development in the 1970's no longer exist. The sharp reduction of the rate of inflation was probably the

main feature of the current cycle. The unbridled inflation was replaced by problems connected with the escalation of American interest rates. This was also reflected in economic policy. In November 1982, for example, the Bank of Canada abandoned its efforts to regulate the amount of money in circulation and concentrated on the regulation of interest rates and the maintenance of the currency exchange rate.

The quicker growth of wages in comparison to labor productivity in the second half of the 1970's was replaced by the quicker growth of labor productivity and a large gap between the growth rates of consumer prices and wages.

In addition, unemployment rose dramatically in the 1980's. We should recall that a rate of unemployment of 3.5 percent was called "normal" in the 1960's, and the normal rate for the end of the 1970's was 6.4 percent.¹⁷ By 1986, however, more than 10 percent of the economically active population of Canada was unemployed. The reduction of unemployment to the level of the 1970's is not anticipated in the near future.

The budget deficit remained a pressing problem. As we know, this problem can only be solved under favorable economic conditions. Even government experts have noted the increasing instability of international economic development, however, and this puts the possibility of balancing government income and expenditures before the end of this century in question.

FOOTNOTES

1. SSHA: EPI, 1984, No 8, p 85.
2. "Canada. OECD Economic Surveys," October 1985, p 62.
3. Ibid., pp 29, 61.
4. The quarterly dates of cyclical phases in the United States and Canada almost coincide.
5. "Canada. OECD Economic Surveys," October 1985, pp 9-10.
6. FINANCIAL POST, 26 January 1985.
7. Ibid.
8. "Canada....," pp 14, 61.
9. "Main Economic Indicators, August 1986," p 86.
10. "Canada....," p 14.
11. Ibid., p 15.
12. Ibid., pp 17-18.

13. "Towards a Sustained Expansion; Canada's Economic Prospects, 1986-1991," p 26.
14. Ibid., p 9.
15. Ibid., pp 8, 10.
16. "The Budget Speech," 26 February 1986, p 12.
17. E. Carmichael, "Reassessing Canada's Potential Economic Growth," Ottawa, 1979, p IX.

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ORGANIZATION AND ADMINISTRATION OF SDI PROGRAM

Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 1, Jan 87
(signed to press 17 Dec 86) pp 90-99

[Article by A.A. Vasilyev, A.A. Voronkov and Yu.A. Ushanov; passages rendered in all capital letters are printed in boldface in source]

[Text] The need to prevent an arms race in space is one of the main issues of the present day, and its resolution will determine the directions of the future development of the already tense international situation. In the United States itself the steps toward the creation of offensive space weapons are being made in an atmosphere of struggle between at least two conflicting tendencies. On the one hand, the criticism of the "Star Wars" plans by public and political circles within the country and abroad and, what is most important, the peaceful initiatives of the Soviet Union are weakening support for the White House. On the other, the Reagan Administration and the group of politicians and industrialists backing it up are trying to strengthen their position and accomplish real advances in the creation of space weapons.

The history of the development of military construction in the United States has already provided many examples of the way in which a strong organizational basis in administrative and industrial links has precluded the prevention of the development of specific types of weapons. The people behind a specific project have always tried to lay a solid foundation so that the officials of a new administration will be strongly committed to earlier work on the project. Even when a new administration has cancelled a project, as in the case of the strategic B-1 bomber, the foundation of the project was so solid that it was revived and resumed by Reagan. This is why we feel that the administrative aspects of the Star Wars plans are of definite interest.¹

The particular importance of the administration of the program stems from the frequent declarations, including announcements made at the highest level of the American leadership, that the SDI program is "purely research" and that the work on the program will stop if the research demonstrates the insufficient feasibility of its basic theories. An analysis of organizational aspects can provide additional arguments to contradict these statements by demonstrating how deeply the program is esconced in key elements of the military-industrial complex and how its completion is "programmed" in future Pentagon plans and budgets.

Experience has shown that inertia is characteristic in general of all large-scale projects. Harold Brown, the former U.S. secretary of defense, said that "earlier decisions are another factor influencing the work on a program. It is extremely difficult to stop or change the course of earlier work. And if this is done, the cost is quite high."²

Strictly speaking, the SDI is not a program in the usual sense of the term,³ but an entire conglomerate of programs. This is a big project. We should recall that R. Delauer, former under secretary of defense for research and engineering, said that this program was comparable in terms of complexity to at least eight Manhattan projects.⁴ It is probable, and this becomes more apparent with each day, that the SDI is more complex and more expensive⁵ than eight Manhattan projects and has much less chance of successful completion in its entirety.

The work on the SDI, according to Pentagon plans, should be conducted in four stages:⁶

"Research," begun long before President Reagan made the Strategic Defense Initiative public in March 1983. It will continue until the beginning of the 1990's; the goal of the program in this stage consists in determining and evaluating the potential effectiveness of various antimissile systems, so that the U.S. leadership can make a decision on the most promising fields of further developments in this area;

System development. The goal is to plan, build and demonstrate experimental models of antimissile systems in action. This stage will begin in the 1990's. No completion date has been set;

Transitional period. The goal is the gradual and consistent deployment of elements of antimissile systems;

Full-scale deployment of a highly effective tiered antimissile system. The announced goal is the defense of the territory of the United States and its allies against attack by a potential adversary.

The first result of the announcement of the SDI was the unification of 25 different programs in the area of antimissile systems (and related fields), being conducted by the departments of the different branches of the armed forces, agencies, and other offices of the U.S. federal government, in five large groups, each of which was assigned a specific place in the program budget of the Defense Department. Most Pentagon projects had previously been covered by several dozen budget items, with advanced ballistic missile defense technology and technical systems of ballistic missile defense representing the main items. Separate projects were also conducted by the Department of Energy and the National Aeronautics and Space Administration (NASA).

The new system for the classification of "research" programs was the following:⁷

Target detection, interception, tracking, and the evaluation of destructive potential. Planned expenditures for 5 years will total 10.51 billion dollars, or 41.7 percent of all Pentagon allocations for fiscal years 1985-1989;

Development of directed-energy weapons. Five-year financing of around 5.868 billion dollars (23.3 percent);

Development of kinetic energy weapons. Planned expenditures of 5.893 billion dollars (23.4 percent) for 5 years;

Analysis of weapons systems and battle management theories. Financing of 1.095 billion dollars (4.3 percent) for 5 years;

Support and maintenance of antimissile systems. Five-year financing of 1.847 billion dollars (7.3 percent).

Therefore, expenditures equivalent to less than 50 percent of all allocations are planned just for weapons in the first stage of the SDI program. Many American experts have concluded that the main elements of the potential anti-missile system will not be means of destruction, but computers, software (especially artificial intelligence systems), infrared sensors, radars, etc.

It is significant that, despite the assurances of the SDI's supporters, the work in this sphere is not, even now, research in the pure form.⁸ This is made clear by the very sequence of project financing. In the "5-year defense program" representing the main instrument of Pentagon military planning, these groups of programs are categorized as "advanced projects." The latter combine research and investigative projects on the one hand with design projects on the other. Ronald Fox, a well-known American authority on military administration, has said that "advanced projects include the experimental and operational testing of new weapons systems,"⁹ which, in relation to the SDI, would mean a violation of the Soviet-American ABM treaty of 1972, especially now that it has almost become a common practice in the United States to begin the production phase before the designs of the new weapons systems are perfected.¹⁰

Within the framework of these five programs, there are individual projects representing a more or less complete, self-contained and long-term set of procedures which will take from 3 to 5 years.

For example, there are clearly 11 such projects in the FIRST group--radar equipment and target identification; optical target identification devices, etc. The SECOND consists of four projects: space-based lasers; ground lasers; space-based particle beam weapons; directed-energy weapons powered by nuclear explosions in space. The THIRD program for kinetic energy weapons consists of 11 projects, including non-nuclear interception inside and outside the atmosphere. The FOURTH consists of two projects: the management of combat operations (command, control and communications); the analysis of missile defense theories. Finally, the FIFTH program consists of four projects: the augmentation of the kill capabilities and invulnerability of antimissile systems; the survivability of equipment used in these systems; sources of energy in space and its conversion; material and technical support in space.

As a rule, specific projects include separate assignments or tasks which will take from 3 to 12 months to complete: 73 such assignments were planned for fiscal year 1986.

In addition to the programs, projects and special assignments included in the SDI, other Pentagon research and development projects are directly related to the future plans for the creation of antimissile systems even if they are not presently regarded as organizational elements of the SDI.

When the SDI's supporters cite arguments in favor of the feasibility of the program, they make frequent references to the Manhattan Project, which, in their opinion, testifies that the concentration of material and human resources can lead quickly to the complete or partial attainment of objectives that might seem fantastic or impossible because of various technological problems. They recall that the decision to start the work on the atom bomb was made by the White House on 6 December 1941, and that by 16 July 1945, or just three and a half years later, the first test of the new weapon was conducted in Alamogordo, and Hiroshima and Nagasaki were then destroyed in an atomic holocaust just 3 weeks later. In this case, it is true that all of the intermediate stages of the program—from basic research to the building, testing and use of the lethal weapon—were extraordinarily short. It must be said, however, that the creation of a space weapons system will evoke countermeasures and will give rise to an arms race in a new direction, which will make the very possibility of achieving SDI goals at any level of technical development questionable.¹¹

Both programs are distinguished by considerable uncertainty about the specific ways of achieving goals. For example, the most careful estimates of the quantity of plutonium or uranium 235 needed for the creation of an "effective atomic bomb" diverged a hundredfold!¹² There were corresponding differences in estimates of the cost of the program. In the case of the Strategic Defense Initiative there is even more uncertainty, not only because many technical aspects are still unclear, but also because the key decisions on the SDI, primarily the decision on the type of system to be deployed, are to be made in the future, during the final stages of the program, with a view to the extremely broad and constantly growing group of possible countermeasures.

The general requirements of the administrative system of the Star Wars program are set forth in the well-known report of the Fletcher commission ("Defensive Technologies Research"), which stressed the importance of establishing a strong centralized office to manage the SDI.¹³ The Pentagon's SDI Organization is this kind of office. It was headed by Air Force Lt Gen James Abrahamson, the former head of the American space shuttle program, who was put directly under the jurisdiction of the U.S. secretary of defense (which distinguishes the SDI Organization from the Pentagon's program organizations of the 1970's). This office is small but is staffed by highly qualified personnel (80 people in 1986—60 specialists and 20 auxiliary staffers) and is invested with extremely broad powers.

Data on the dynamics of SDI Organization allocations provide eloquent testimony to the increasing importance of the Star Wars program in the Reagan Administration's plans. Pentagon requests for this program totaled 1.78 billion dollars in FY 1985 and 3.72 billion in 1986.¹⁴ Congress made definite cuts in Defense Department requests, but SDI allocations have nevertheless increased (1.397 billion dollars in 1985 and 2.759 billion in 1986).¹⁵

Congress approved the amount of 3.5 billion for FY 1987. According to Pentagon estimates, expenditures in FY 1985-1989, if Congress should allocate the funds, will total 25.213 billion dollars.¹⁶

It is significant that although the SDI Organization is an independent structural subdivision of the Pentagon, it is simultaneously only part of the complex system for the administration of the program. There are four main elements (or subsystems) in this system.

THE SUBSYSTEM OF POLITICAL MANAGEMENT consists of government agencies and institutions at the highest level of public administration. It is here that the most important decisions are made on the program as a whole, the strategy of its implementation, the size of allocations, etc.

The key role here is played by the President of the United States and the National Security Council (NSC). Congress also has important functions to perform; all bills connected with the financing of the SDI program and the determination of guidelines for its future development are handled by its committees on appropriations and on the armed services. The main congressional services (the General Accounting Office, the Office of Technology Assessment, the Bureau of the Budget, and the Congressional Research Service) supply legislators with analytical data and estimates to aid in sounder decision-making.

An interdepartmental group on military policy, headed by the under secretary of defense, coordinates the activities of various establishments within the SDI framework and investigates the technical, military and political aspects of the SDI program. The group consists of high-level representatives of all federal agencies connected with national security. General Abrahamson was appointed the executive secretary of the group in charge of SDI affairs.

THE SUBSYSTEM OF MILITARY MANAGEMENT consists of the U.S. Defense Department, the departments of different branches of the armed forces, Pentagon agencies, and the Joint Chiefs of Staff (JCS).

The coordination of Defense Department efforts in connection with the SDI program is the responsibility of an executive committee whose functions also include the management and supervision of all elements of the program. The deputy secretary of defense is the committee chairman, and General Abrahamson is the executive secretary. Other committee members are the chairman of the JCS, the secretaries of branches of the armed forces, the under secretaries of defense, the assistant secretary of defense (comptroller), the director of program analysis and appraisal, the chairman of the Military Liaison Committee, and the directors of the Advanced Research Projects Agency and Defense Nuclear Agency. The executive committee is also responsible for the supervision and management of the internal administration of the SDI program within the Defense Department. The JCS, to which all SDI technical designs are submitted, examines requests for funds and sets program guidelines; determines operational requirements; in conjunction with the under secretary of defense for policy, provides the SDI Organization director with the necessary assistance with strategic, political, and operational aspects of the program.

THE SUBSYSTEM OF OPERATIONAL MANAGEMENT consists of the Strategic Defense Initiative Organization--the administrative body responsible for setting the goals of programs, research, and projects, supervising the compilation and execution of the SDI budget, distributing funds among various projects, and maintaining contact with the President, Congress, the NSC, the JCS, and other concerned agencies.

As the head of the SDI Organization, General Abrahamson must establish direct contact with the departments of different branches of the armed forces and the Defense Department agencies which will be directly involved in the work on various elements of the program; oversee the implementation of the PPB (planning-programming-budgeting) cycle for the SDI; with the approval of agencies and departments of branches of the armed forces, appoint organizations in charge of the completion of individual SDI projects and assignments; submit the program to the Defense Resource Committee (including the compilation and submission of an "integrated memorandum of program goals").¹⁷

In general, the work of the SDI Organization is based on the principle of "centralized planning and decentralized execution."¹⁸ This means that Abrahamson and his planning and coordinating staff set the final and intermediate goals of research programs and the speed and dates of their completion. The work itself is conducted in the scientific centers of the Department of Energy, NASA, other federal government agencies, industrial firms contracted by the Pentagon, universities, etc.

The internal structure of the SDI Organization is built around the main program objectives. In complete accordance with the five "main program elements" of the SDI, five administrative groups have been established, each of which oversees the corresponding group of projects.

The organization structure also includes a system design and theory group, responsible for the integration of all elements of the SDI into a single entity and for the timely transmission of the necessary information about the program to interested government agencies. An important role is played by a scientific and technical innovations division, the functions of which include the contracting of scientific centers, universities, and agencies to conduct advanced research, the results of which can be used in the projects of the five groups of research programs or in subsequent stages of the work on the SDI.

Besides this, the SDI Organization has the subdivisions common to all organizations--concerned with technical and administrative aspects, budgeting and finances, public relations, etc. At the end of 1985 another division was established for the use of research findings for educational and civil purposes. It was established primarily for publicity and tactical reasons. The supporters of the SDI inside and outside the U.S. Government are known to portray the Star Wars program as an exceptional opportunity to extend the government subsidization of scientific research to fields of key importance to American science, technology, and business. In fact, however, the SDI projects are purely military, and their use for civilian purposes is limited by their complexity.

Another element of this subsystem is the SDI advisory committee, consisting of prominent experts in the most diverse fields from the business, scientific, and academic communities. Its functions include the offer of consulting services, expertise, and independent assessments of planned undertakings and research findings within the SDI framework.

It must be said that the SDI Organization is often portrayed in the American press as a fundamentally new type of administrative entity, and its staffers are expected to "revolutionize" the practice of program administration in the Pentagon. Its 2 years of experience have shown that the only field in which the organization has excelled is the advertisement of its achievements, and this has been false advertising. Evidence of this can be found in the statements by General Abrahamson and his closest associates about the "serious scientific breakthroughs" in the work on the program immediately after the summit meeting in Geneva. An investigation of the actual state of affairs conducted by the Congressional Research Services at the request of Senators W. Proxmire, B. Johnston, and L. Chiles revealed that the only major sphere of progress was the disclosure of the problems the strategic defense system might encounter in the future.¹⁹ All of the talk about breakthroughs was nothing more than a "public relations ploy" to enhance the prestige of the military establishment and convince the legislators to approve new allocations of billions of dollars for the SDI.

The abovementioned principle of "centralized planning and decentralized execution" means that the research centers involved in programs and projects are not under the direct jurisdiction of the SDI Organization. Communication and the routine coordination of work are accomplished through the use of "centralized points of contact" in the headquarters of different branches of the armed forces--that is, through the appointment of administrators in the corresponding subdivisions of the Pentagon to oversee all of the SDI-related work in their agencies.

For example, Maj Gen D. Lamberson, assistant deputy chief of staff for research, development and acquisition, was appointed the administrator in the Department of the Air Force, and Maj Gen E. Hebert, head of the ballistic missile program, was appointed the administrator in the Department of the Army. With this approach, it is possible to have a relatively small central administrative body and still involve large groups of specialists from various organizational subdivisions in the work on the large-scale comprehensive program. In other words, it serves the aims of inserting and consolidating the SDI in the Pentagon structure. At the same time, the approach leads to the duplication of many operations by various departments and agencies and to competition between them. The Department of the Army and Department of the Air Force already have their own subdivisions for weapons systems and battle management analysis and for antimissile system support analysis. Fierce competition has broken out between these departments because each feels that it is the main executor and therefore deserves larger allocations.

From the standpoint of organizational administration, the principle of "centralized planning and decentralized execution" also has other weak points. Many government establishments and agencies are working on Star Wars, including

some which are not formally accountable to the Pentagon. The main ones are the Department of Energy and NASA. Under these conditions, the bureaucratic style of management inherent in public administration makes interdepartmental conflicts unavoidable and reduces the effectiveness of the SDI Organization as an administrative body. In particular, when the SDI Organization was being established, some specialists were already expressing quite valid doubts that the activities of all participants in the program could be coordinated precisely within the 20-year period of its functioning needed for the creation of antimissile systems.²⁰

Along with the firms²¹ and universities involved in the work on the SDI, the scientific research laboratories of the departments of branches of the armed forces and agencies make up the SUBSYSTEM OF EXECUTION, in which most of the actual work involved in the implementation of the program is concentrated. These organizations are the executors of the budget--in other words, they use the funds allocated for the SDI and participate in the compilation of the budget by submitting their requests to the SDI Organization.

In all, the Department of Defense has 75 laboratories and research centers, but outside executors account for three-fourths of its R & D budget. The active participants in the SDI program include the missile defense systems command of the Department of the Army (R&D on defense against missile attack in the terminal phase of flight), the Air Force Space Command, the Defense Nuclear Agency (R&D on defense against missile attack in the boost, post-boost, and mid-course phases of flight, and on missile defense in Europe), the Naval Research Laboratory, and the laboratories of the Department of Energy in Livermore (R&D on directed-energy weapons, including the X-ray laser, the free-electron laser, threat determination, and supercomputers), Los Alamos and others.

Although the U.S. administration, as mentioned above, constantly stresses that the SDI Organization was founded to carry out the research stage of the work on the program, American experience testifies that slight modifications could easily adapt this kind of administrative system for subsequent stages of the SDI. The possibility of this kind of conversion is present in the very structure of the SDI Organization, to which the appropriate operational components can gradually be added during the transition from research and development to the production and deployment of the ABM systems. This organizational feature could provide additional momentum for the previously mentioned inertia characteristic of large-scale projects.

The principles of the Defense Department's contract relationship with SDI contractors are of special interest. It is based on a series of steps tried and tested in NASA and some other government agencies--the recruitment of leading specialists and producers for SDI R & D projects by means of strict competition and the submission of cost-effectiveness bids (maximum result per dollar spent).

The goal is to squeeze as many ideas as possible out of representatives of large firms, universities, and small businesses. For this purpose, all of the contractors working with the SDI Organization are conditionally divided

into four groups, each of which unites organizations with approximately equal scientific, technical, production, and financial potential. Competition is encouraged only within the groups, and not between them.

The first group consists of the giants of the aerospace business--McDonnell Douglas, TRW, Lockheed Aircraft, Boeing, and others, the functions of which include the "integration of systems within the SDI framework."

The second group also consists of large firms, but these specialize in related fields (IBM, Honeywell, Bell Laboratories and others).

The third group consists of research organizations and of specialists with sufficient creative potential to develop models or to work on contracts of a non-production nature (the Draper firm and Lincoln Laboratories are examples).

Finally, the fourth group consists of small businesses and of well-known firms operating in the fields of informational and administrative technology (Arthur D. Little, Systems Analysis and others).

In connection with the uncertainty of research results, plans have called for the distribution of contracts in such a way that the final choice of the executor of the project is the result of competition among all interested parties. Furthermore, the SDI Organization has simplified the very procedure of concluding contracts. It has distributed requests for bids in the form of a short document (of from 10 to 15 pages), in which the goals of the program or project are described in general terms, without any detailed lists of technological specifications. This is supposed to stimulate original proposals from industry and science for the resolution of various technical problems. A contract is concluded simultaneously with several contractors, who then work on a single problem.

In January 1985, for example, 10 industrial companies and research groups²² were awarded a contract for a million dollars each for research into the theory of antimissile systems and their economic substantiation.

The elaboration of theory specifically includes the choice of the most reasonable solution to the technical problem in question, an economic analysis of the project according to the "cost-effectiveness" criterion for the comparison of total expenditures to the future engineering parameters of the system, estimates of the contractor's possible expenditures on the project, and schedule commitments. All 10 contractors were supposed to submit the results by June 1985, but the Pentagon usually allows at least 12 months for this kind of work. This is followed by the second stage of bidding, when a smaller group of competitors (two or three firms) prepare detailed bids, containing complete technical and economic information, including possible expenditures on the creation of the system, the exact dates and engineering parameters, the organizational and administrative requirements, etc. This stage usually takes another 6 months and culminates in the choice of a project and the conclusion of a long-term contract with the winning firm. All of the engineering and technical calculations and economic data of the other competitors, in accordance with federal law, automatically become the property of the government and

are turned over to the winning firm as information paid for during the previous stage of bidding. The distribution of requests for bids and their subsequent appraisal are the responsibility of the personnel of the SDI Organization and of outside experts.

It must be said that, just as in many other cases, the announcement of the distribution of contracts according to competitive bidding, which is supposed to heighten effectiveness, is not always true, and sometimes for purely bureaucratic reasons. Performance discipline and the completion of assignments by an exact date are assigned a great deal of significance in American military organizations. Something similar can be seen now in the behavior of the SDI Organization. Frequently the choice between the quality of R&D and completion dates is made in favor of the dates (in particular, the completion of the first stage of the program in the beginning of the 1990's). Quality suffers. For example, in 1985 the SDI Organization cancelled a 62 million dollar contract with Aerojet ElectroSystems for the development of a sensor for the "Optical Airborne Assistant" project, which was extremely promising but would take more time to perfect. Instead, a contract was concluded with the Hughes Electro Optical and Data System Group, which would be using an existing technical base for the production of the sensor. This was done because the project testing dates were drawing near. In this way, the competition between producers was "smothered in the cradle" for the sake of the schedule.

The heated debates on the SDI have revealed several objective flaws of the program in connection with its colossal cost, its vulnerability to possible countermeasures, and its effect on strategic stability. The arguments of the program's opponents revealed its real aims by showing that it is supposed to create the potential needed for the delivery of a first strike.

Many sensible American specialists realize that, despite the Pentagon's deliberate understatement of technical problems and exaggeration of the importance of results in some fields, the noticeable discrepancy between the declarations of the SDI's supporters and actual technical capabilities is already sizeable enough to question the expediency of the entire initiative and to draw conclusions similar to those which led the United States to the realization of the need for the limitation of ABM systems in the late 1960's and early 1970's.

In a discussion of the dangers of Star Wars, the head of the Union of Concerned Scientists, Cornell University Professor of Physics K. Gottfried, writes that "such seemingly different tragedies as the accident at the Chernobyl plant and the Challenger disaster suggest a single conclusion: Complex technical systems managed by colossal organizations are subject to disastrous accidents, the dangers of which can be disclosed only by trial and error. It would be stupid to assume that this kind of complex system will always work according to plan, especially in the case of systems that cannot be tested in real life. The space system against nuclear missiles is precisely of this type."²³

The development of the work on the program has revealed the selfish interests of many military-industrial companies supporting it. It is also obvious that

the SDI issue is affecting domestic and foreign policy, including the conflicting interests of the ruling class and the American society as a whole.

FOOTNOTES

1. For an analysis of the politico-military problems connected with the SDI program, see SSHA: EPI, 1985, No 11, pp 15-25--Ed.
2. "Science--Technology--Administration," tr fr Engl, edited by V.S. Kazakovtsev, Moscow, 1966, p 94.
3. See, in particular, B. Rudwick, "Military Planning and Systems Analysis," tr fr Engl, Moscow, 1972; A. Steiss, "Public Budgeting and Management," Lexington (Mass), 1974, p 157.
4. The "Manhattan Project" was the program to develop the atomic bomb, a project conducted by the so-called Manhattan Engineer District.
5. The work on the Manhattan Project cost 15 billion dollars. According to the Federation of American Scientists, the work on the SDI could cost 60 billion dollars just between 1984 and 1993, if Congress allocates these funds (both figures are in constant 1985 prices).
6. "Report to the Congress on the Strategic Defense Initiative," Wash., 1985, p 10.
7. DEFENSE R AND D UPDATE, March 1984, p 69.
8. As the report of the Federation of American Scientists correctly points out, several of the projects in the first stage (around 70-80 percent) already fall into the "development" category.
9. R. Fox, "Arming America: How the U.S. Buys Weapons," Boston, 1974, p 104.
10. Ibid., p 107.
11. For a discussion of possible countermeasures and means of counteraction, see "The Broad-Scale Antimissile System and International Security," a report by the Committee of Soviet Scientists for Peace and Against the Nuclear Threat, Moscow, 1986.
12. L. Groves, "Now It Can Be Told," tr fr Engl, Moscow, 1964, p 81.
13. "Department of Defense Appropriations for 1985. Hearings..., House of Representatives, March-May 1984, part 5," Wash., 1984, p 681.
14. D. Waller, J. Bruce and D. Cook, "SDI: Progress and Challenges," Wash., 1986, p 14.
15. Ibid., p 15.

16. DEFENSE R AND D UPDATE, March 1984, p 69.
17. "Department of Defense Appropriations for 1985," p 701.
18. AIR FORCE MAGAZINE, September 1984, p 107.
19. D. Waller, J. Bruce and D. Cook, Op. cit., p 108.
20. NATIONAL DEFENSE, October 1984, p 23.
21. The possibility of earning billions in profits on Pentagon contracts has aroused the interest of large military-industrial concerns in the SDI program. They include, in particular, McDonnell Douglas, General Dynamics, Lockheed Aircraft, Boeing, General Electric, Hughes Aircraft, United Technologies, Raytheon, Litton Industries, Grumman Aircraft Engineering, Martin Marietta, and Rockwell International. By the end of 1985, government contracts connected with the SDI had been awarded to more than 240 firms.
22. These were: 1) General Research, 2) Hughes Aircraft, Pacific Sierra, Avco, GTE, and Bachtel, 3) Lockheed Missiles and Space, Honeywell, Raytheon, Contel, SRS Technologies, and the National Institute of Public Policy, 4) Martin Marietta, 5) McDonnell Douglas Astronautics and its Aerojet Electrosystems branch, as well as E-Systems, and R and D Associates, 6) Rockwell International, 7) Colman Research, 8) Sparta, Systems Analysis, Nichols Research, and C.G. Shaffer Associates, 9) Tele-dyne Brown Engineering, 10) TRW.
23. THE NEW YORK TIMES, 14 May 1986.

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CSO: 1803/05

REVIEW OF USSR SCIENTISTS REPORT ON ANTIMISSILE SYSTEM

Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 1, Jan 87
(signed to press 17 Dec 86) pp 104-106

[Review by V.G. Glebovich of book "Shirokomasshtabnaya protivoraketnaya sistema i mezhdunarodnaya bezopasnost" [The Broad-Scale Antimissile System and International Security], Report of the Committee of Soviet Scientists for Peace and Against the Nuclear Threat, Moscow, Izdatelstvo Agentstva pechati Novosti, 1986, 91 pages]

[Text] This report was prepared by leading specialists from the Space Research Institute, Institute of U.S. and Canadian Studies, and Institute of World Economics and International Relations of the USSR Academy of Sciences and from the Moscow State Institute of International Relations. Making extensive use of the opinions expressed in similar studies by American and West European researchers, the Soviet scientists undertook a comprehensive analysis of President Reagan's "Strategic Defense Initiative" (SDI).

The study includes a detailed discussion of the potential combat elements of the space tiers of the broad-scale antimissile system, which are to be deployed along the entire flight trajectory of ICBM's and SLBM's, from the boost phase to the phase of re-entry into the dense strata of the atmosphere over U.S. territory.

Proposing a system for the classification of all the SDI-related means of destruction as directed-energy weapons (laser and beam) and kinetic weapons (from metallic fragments to ballistic or homing projectiles destroying a target by inflicting mechanical damage), the authors of the report discuss the distinctive features of each type of weapon and examine the possibilities of their use for the attainment of SDI objectives.

The analysis essentially proved that the deployment of chemical lasers, hydrogen ion accelerators (beam weapons) or electromagnetic mass accelerators (kinetic weapons) on space combat stations will require the establishment of stations weighing several thousand tons and measuring around a hundred meters. In view of the need to secure the highly reliable operation of the tiers of the antimissile system and to take several measures to protect the stations, the creation of this kind of system in the near future appears problematic at best and would require colossal expenditures. According to calculations

cited in the report, the hypothetical antimissile system will cost from three to four times as much as attack weapons and would be far inferior to them in terms of the payload needed to be launched into outer space for the destruction of targets.

As the study stresses, the space antimissile system cannot be tested in its entirety in peacetime, and its reliability cannot be guaranteed in view of possible countermeasures. The authors of the report mention the possibility of the creation of a group of active or passive means of neutralizing and destroying various elements of the tiered antimissile system. Another possibility is the accumulation and modification of strategic offensive arms. Furthermore, according to some estimates, the cost of the group of countermeasures and weapons could be equivalent to only a fraction of the cost of the broad-scale antimissile system with space-based elements.

Nevertheless, the creation of this kind of antimissile system would have a severe negative effect on strategic stability, parity, and international security. The authors of the report conclusively prove that this system, without guaranteeing complete "impenetrability," will, in combination with the stockpiling of U.S. strategic offensive arms, effectively signify an attempt to secure first-strike potential, with the SDI weapons capable of serving as one of its means.

A large section of the study is devoted to an analysis of the use of the destructive elements developed within the SDI framework for the destruction of objects in the air and on land. The Soviet scientists stress: "This kind of system, which is supposedly meant to act against ballistic missiles, will lead to a new round of the nuclear arms race, and this time in outer space, where much of the offensive nuclear strength of both sides could be transferred" (p 43). Other considerations are the threat the space antimissile system would pose to communication and early warning satellites and the danger of the possible self-activation of orbiting stations. As a result, the report stresses, the loss of a stable strategic balance would be unavoidable.

The direct results of the deployment of these weapons, the Soviet scientists point out, would be the subversion of the open-ended USSR-U.S. Treaty on the Limitation of ABM Systems of 26 May 1972, the stockpiling of strategic offensive arms, the reduction of decisionmaking time, and, as a result, the increased danger of the accidental start of a nuclear war with the simultaneous undermining of prospects for international cooperation in space and for better Soviet-American relations. The deployment of even the limited intermediate types of antimissile systems advocated by some members of the current Washington administration would have the same effect.

The extremely dangerous connection between military-technical preparations in the SDI program and Washington's declarations regarding "limited" and "controlled" nuclear wars will undermine the stability of the strategic balance on the European continent. In reference to this, the Soviet scientists conclude: "The real aim of the American strategists consists in shielding the United States against a retaliatory strike in times of crisis while using Europe as an arena for military operations" (p 84). The only

reasonable alternative to the inclusion of antimissile weapons in the military-strategic equation in Europe "is the complete removal of all nuclear weapons from this region," the report says (p 85).

The comprehensive study of the scientific-technical and military-strategic aspects of the creation of the U.S. broad-scale antimissile system with space-based elements, conducted by the working group of the Committee of Soviet Scientists for Peace and Against the Nuclear Threat, served as grounds for several conclusions of fundamental importance. In essence, they state that this kind of antimissile system is incapable of making nuclear weapons "impotent and obsolete" (as the United States has declared) or of securing any kind of reliable protection of the territory of the United States and its allies. The USSR "will find various ways...of maintaining the existing military-strategic parity in the world" (p 88), which will be restored each time, but on a higher and less stable level.

The Soviet study cogently confirms that the guarantee of international security will necessitate the unconditional observance of strict limitations on ABM systems, a ban on space attack weapons, and progress toward the complete elimination of nuclear weapons on earth, as the 15 January 1986 statement by General Secretary of the CPSU Central Committee M.S. Gorbachev and the decisions of the 27th CPSU Congress proposed.

The professional competence of the authors, the abundance of specific details presented in the report, and the authors' sweeping and logical conclusions will make this study a valuable contribution to the efforts to explain to the world public the real goals of the SDI program and the threat it could pose to the people of the world and the security of states.

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REVIEW OF SOVIET BOOK ON U.S. ECONOMIC DEVELOPMENT

Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 1, Jan 87
(signed to press 17 Dec 86) pp 106-107

[Review by R.I. Zimenkov of book "Ekonomicheskaya diplomatiya" [Economic Diplomacy] by I.A. Ornatskiy, Moscow, Mezhdunarodnyye otnosheniya, 1985, 336 pages]

[Text] Diplomatic activity in the sphere of international economic relations has been conducted on an unprecedented scale in the postwar period, especially in recent decades, and it has played a more important role in determining the conditions of the functioning of national economies. This is why it is extremely important to disclose the role and significance of U.S. economic diplomacy, its class nature, its content, and its principles, goals and aims.

This was the intention of the author of this book, which contains a thorough analysis of the economic diplomacy of socialist and developing countries and a lengthy discussion of the modern forms and methods of economic pressure exerted on these countries by the United States and other developed capitalist states.

The United States and its transnational corporations are striving to integrate the developing countries into the world capitalist economy as a more developed but still dependent and exploited element of this economy. On the one hand, they are employing the tactics of procrastination and manipulation to delay the reorganization of international economic relations and are trying to put its practical significance in question and even to consign it to oblivion. On the other hand, they are making a vigorous effort to attach the economies of the developing countries more closely to the world capitalist economy and, in particular, to the U.S. economy, are strengthening the influence of American private capital in these countries, and are creating a social base there by passing on part of the profits derived there by U.S. capital to influential groups cooperating with them.

The use of economic contacts with developing countries to exert pressure on their governments is an integral part of the U.S. foreign policy conducted by American diplomacy. To this end, it uses all means of economic influence, particularly bilateral and multilateral assistance, technology transfers, trade, etc. The author cites the following examples: The United States

stopped or reduced bilateral economic assistance to Afghanistan, Bolivia, Ghana, Zimbabwe, Madagascar, Nicaragua, Sudan, Surinam, and other countries for political reasons just in the 1980's.

Certain methods contrary to UN principles are being employed openly in economic relations--such as the unilateral refusal to comply with negotiated economic agreements and contracts, the organization of trade and credit blockades, and the practice of discrimination in trade and in scientific and technical contacts. This U.S. policy also includes broader protectionist measures in the trade in certain groups of commodities, the sale of large quantities of raw materials in world markets at low prices, particularly tin and rubber, which inflicts heavy economic damages on the Southeast Asian countries and some countries in Latin America, the economic sanctions against Argentina, Mexico, Peru, and Ecuador, and the trade embargo against Libya and Nicaragua.

In a discussion of the policy and practice of American imperialism in world economics, the author stresses that the United States discriminates against emerging countries and against socialist states, viewing economic contacts with the socialist world only as a way of attaining its own politico-military goals.

This policy creates an atmosphere of tension and mistrust in international economic relations, disrupts world trade and economics, undermines their legal bases, and inhibits the establishment of a new international economic order on a just and democratic basis.

The analysis of the diplomatic activity of imperialist states, especially the United States, in the United Nations and other international economic organizations is of considerable interest. The author notes that the current U.S. policy in the United Nations and other international organizations is an important part of the Reagan Administration's general policy line of changing the balance of political power in the world arena in favor of imperialism by achieving military-strategic superiority to the USSR, suppressing the national liberation movement by force, subverting progressive reforms in the emerging countries, and encouraging the international activities of transnational corporations to the maximum.

These basic goals and aims were also characteristic of American diplomacy in the United Nations and other organizations in the past, but, as the author stresses, the Reagan cabinet, in contrast to previous administration, is trying to attain them by more aggressive means. Washington policy is now distinguished by overt hostility toward countries pursuing an independent policy in the United Nations, a willingness to engage in angry confrontations, and the activation of all existing diplomatic, political and economic levers to accomplish changes benefiting the United States in the policy of the United Nations and its agencies.

The author presents an entire series of important scientific conclusions and generalizations to give us a more thorough understanding of the foreign economic activity of industrially developed capitalist states, emerging countries and the countries of the socialist community. All of this represents a substantial contribution to the scientific analysis of problems in international economic relations.

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REVIEW OF SOVIET BOOK ON AUTOMATION OF U.S. OFFICES

Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 1, Jan 87
(signed to press 17 Dec 86) p 108

[Review by B.D. Antonyuk of book "Avtomatizatsiya kontorskogo truda v SShA. Teoriya i praktika 'ofisa budushchego'" [The Automation of Office Work in the United States. The Theory and Practice of the "Office of the Future"] by G.B. Kochetkov, Moscow, Nauka, 1985, 224 pages]

[Text] The augmentation of labor productivity is accomplished primarily in three ways: the expansion of production, its modernization through the introduction of new equipment, and the improvement of the organization of production and management. Calculations conducted by Sverdlovsk scientists for the two largest machine-building associations in the oblast indicated that the augmentation of labor productivity by just 1 percent would cost an average of 4,912 rubles per job in the first case, 2,587 rubles in the second, and only 196 rubles if the organization of production and management were to be improved. This does not mean that the choice of the third option at the expense of the second and first--that is, without the introduction of new equipment--could produce a substantial economic impact, but the figures do attest to the importance of organizational factors.

The improvement of management, however, first necessitates the efficient organization of information about the production process, singling it out as one of the elements of this process and regarding it as a resource of the enterprise, organization, etc. This, in turn, necessitates the serious consideration of a new information processing sector in our country--the labor of office employees, which is still distinguished by the lowest power and machine input. According to the author, the value of machines and equipment per office employee in the United States is only 3,000 dollars, whereas the figure per production worker is 35,000 dollars. This explains the indicators of labor productivity: In the 1970's they rose 85 percent in industry and 4 percent in office work (p 7). The choice of the office [kontora], or office [ofis] (the term the author uses to refer to the managerial staff), as an independent topic of research for the purpose of improving the managerial structure of the economic mechanism is extremely important and relevant.

G.B. Kochetkov bases his work on the experience of the information services of American companies, which have been quite successful in the automation of

offices. An analysis of various systems indicates that the design of the "office of the future" in each specific case depends on the organizational structure of the company and the nature of its activities (p 19).

The extensive use of computers in offices not only leads to the improvement of data processing, but also to the involvement of employees in this procedure, and this is the precise purpose of these systems. Today the computer is not supposed to replace the individual, but to assist him by quickly providing all necessary information in the form most convenient for the user.

Information resource management is examined in a separate section of the book.

G.B. Kochetkov's book is one of the first Soviet works to thoroughly analyze the present state of the automation of managerial labor in the United States and to describe modern approaches to the management of the information resources of large production and administrative organizations.

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CSO: 1803/05

U.S. INDUSTRIAL ESPIONAGE

Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 1, Jan 87
(signed to press 17 Dec 86) pp 118-123

[Response by R.M. Casanov to letter from reader: "Industrial Espionage";
first paragraph is SSHA: EPI introduction]

[Text] Reader L.M. Pechatnikov (Moscow) asks about the industrial espionage mentioned in the press and in television programs.

The United States has been a paradise for industrial espionage. The professionals in this line of work, referred to as industrial termites in Western literature, resort to countless tricks and ruses.

It appeared that a large American agricultural company had taken every conceivable precaution to keep the use of new additives in a livestock feed a secret. Experts in counterespionage carefully checked each corner of the conference room with special equipment, turned off all telephones and the intercom system, hung heavy drapes over the windows, sent away all auxiliary personnel, including secretaries and assistants, and stationed security guards in all of the hallways and at all of the doors. Only individuals with a personal interest in the success of the corporation were invited to the meeting. Nevertheless, a competitor learned the secret.

Businessmen are known to be respectable people with their own personal tailors. The competitors took advantage of this fact. They were able to bribe experts who put all of their tailoring skills to work to sew an ultrathin transmitter into the lining of a client's suit.

Industrial espionage has now been elevated to the status of a science and, as a field of knowledge required in daily business practices, is taught in some academic institutions.¹

In an article entitled "How To Spy on Your Competitors," FORTUNE magazine, the organ of the U.S. business community, asserts that "espionage in business is not an ethical problem, but an established part of commercial competition."²

A vivid example of the modern, purely American type of industrial espionage is the activity of "tailor" Jack Malquin. "Jack's people" always attend

exclusive fashion shows in Paris, Milan and London and secretly photograph the latest fashions with hidden portable cameras. Within days the photographs are on Jack's desk. With the aid of experts, he enlarges the pictures tenfold and uses them to make patterns. A few days later the patterns and a sample sewn in New York are flown to Seoul or Hong Kong. Local factories immediately begin filling the order, and within a week from 10,000 to 50,000 copies of the model can be found in stores in San Francisco, Munich, Los Angeles, and Madrid at a third or a fourth of the price of the original. He made 350 million dollars just in 1983, which attests to the high profitability of this business.

There are disagreements about the "age" of industrial espionage. The development of trade led to commercial secrets, and the development of the crafts led to production secrets. The wealthy could afford to hire people specially trained to learn the secrets of competitors. Demand generated supply, and this kind of activity received its present name later, in our time.

In essence, espionage is an attempt to acquire the most complete and reliable secret information. The people who hunt for industrial secrets are motivated not by curiosity, but only by the hope of financial gain.

With a few reservations, we could call scientific-technical espionage part of industrial espionage, because any scientific-technical development produces a profit only after it has been put to use--that is, after industry has turned the ideas into electric mixers, computers, highly productive conveyors, popular vehicle models, etc.

The classic objects of "study" for industrial spies are patents, blueprints, the secrets of production and technology, expenditure patterns, and other commercial secrets.

The fierce competition for sales markets and spheres of investment forces the executives of American corporations to keep an eye on their competitors, especially their European and Japanese rivals. To this end, they establish special committees to collect secret information.

The giant General Motors firm established its European Advisory Committee back in 1974. It maintains close contact with banking, trade and industrial organizations in Western Europe, with the leadership of the Common Market, and even with UN agencies. The committee budget in the 1970's was equal to the budget of the French intelligence community.³ All of this makes the acquisition of information of primary importance possible.

Two years later the Ford Motor Company had the same kind of committee. The former members of European governments on the committee were extremely valuable personnel because their contacts allowed them to perform "invaluable services" for the corporation.⁴

A prominent place in the system of total espionage is occupied by the foreign branches of TNC's, which have a diversified network of informers in all host countries and a great deal of financial potential. One example is International Telephone and Telegraph.

Just as any other transnational corporation, IT&T conducts technological and industrial espionage in all countries. It is particularly intensive wherever corporate interests are affected directly. The secret service of this corporation is so effective that confidential information is often leaked to IT&T before it reaches the CIA. As for its own secrets, according to the American NEW YORKER magazine, the secrets of IT&T are guarded more closely than the secrets of the Vatican and the queen of England. And this is not journalistic hyperbole. Envelopes are sealed with a special glue which makes it impossible to open them secretly, and the correspondence itself is stamped "confidential" or "top secret." The industrial intelligence and counterintelligence divisions of IT&T and its branches throughout the world employ 20,000 agents.

As a rule the TNC's recruit highly qualified industrial espionage agents from government institutions like the CIA and FBI. Whereas FBI agents are offered positions in counterespionage divisions, CIA agents work in analytical centers. The TNC's train their own rank-and-file employees and analytical experts or recruit them from leading universities. The same IT&T invited J. McCone, once the director of the CIA, to head its secret services.⁵

"The scales and reputation of IT&T operations have assigned this corporation special importance in the performance of services for the CIA," the WASHINGTON STAR reported, "because this corporation installs and maintains the internal telephone network in many countries of the world."⁶ The CIA and IT&T engage in business contacts of this type in many countries of Latin America, Asia, Africa, and Western Europe.

The search for sources of information concentrates on emotionally unstable people with an inferiority complex and on people who are inclined to abuse alcohol and drugs—that is, all those who cannot or will not give up their vices and are afraid of their disclosure.

As a rule, the most effective sources of information are people with thwarted ambitions and excessive tastes. The first become industrial spies because of valid or mistaken feelings of being left out, and the second become agents because this highly paid line of work can satisfy their taste for luxuries and opulence.

Industrial espionage, just as any other profession, has its aces, its craftsmen, and its hangers-on. One of the aces of industrial espionage was Almont Cumming, who founded a private espionage and counterespionage firm back in the 1920's. Industrial espionage is a "respectable business," and Cumming, as a successful businessman, wrote his memoirs, in which he called himself an employee of the 15 largest industrial companies in America.

Any discussion of aces must include some mention of Dr Bradley, a talented chemist, outstanding economist, and "peerless" industrial spy. In his capacity as a professor at the Brooklyn Polytechnical Institute, he helped his most capable students find jobs in leading corporations. They kept in touch with their schoolmaster and supplied him with information, which he was able to sell to great advantage. Many American companies which carefully guarded their secrets from competitors eagerly acquainted Bradley's students with the

"mysteries of the industrial shrines" in the hope of attracting the most gifted graduates to their laboratories.⁷

Dr Bradley was a pseudonym--something as essential to a spy as secrecy. The person hiding behind the name was renowned chemist Robert Spencer Aris, a man with dual U.S. and French citizenship. After receiving a college degree at the age of 22, he began teaching at the Brooklyn Polytechnical Institute and soon acquired a doctorate in chemical technology and several high academic titles from the University of Minnesota and Yale University.

The world-renowned scientist with a spotless record became an industrial spy. He engaged in espionage in chemistry, pharmaceuticals, automotive engineering, and electronics. Bradley's biggest coup was connected with the theft of a medicine for coccidiosis, which was literally mowing down chickens. This disease had become the scourge of poultry breeders in the United States and Europe.

With the aid of the persistent efforts of hundreds of scientists and after spending 1.5 million dollars on research, the American Merck transnational corporation developed the most effective of the existing means of combating coccidiosis--amproleum.⁸ At the beginning of the 1970's, Merck was expanding its operations and acquired the controlling interest in a French company, Sinorga. Among the documents of the latter, the Merck executives found a license for the production of Melirium. It was identical to amproleum. It is easy to imagine how the new owners felt when they learned that the French firm had bought the secrets for 8,500 dollars.

Industrial firms are not fastidious in their choice of means and methods of competition: In addition to using legal means of "clean" industrial espionage, the TNC's also bribe specialists and top-level managers, who essentially serve as "mother-lode" spies.⁹ Bribes are also offered to specialists, inventors, engineers, and even workers, if they have access to competitors' secrets.

Industrial espionage produces such high dividends that it is practiced not only by individual scientists at the best Western universities, but also by whole research institutes. What could we say about the "achievements" of the scientists from a world-renowned biology institute in California who published a report on a new highly effective treatment for malaria? When their colleagues from the National University of Australia read the report, they were furious and they accused the Americans of simply copying their work, which had taken many years of effort. This scandal was not only a result of the Australians' desire to defend their own prestige, but also of the fact that the medicine for the tropical ailment held out the promise of millions in profits.

The monks of missionary orders also spy for the TNC's. For example, in the Latin American countries they establish their missions near deposits of cobalt, manganese, and uranium, which are of special interest to the Westinghouse and General Dynamics companies. It is no secret that these TNC's are also part of the military-industrial complex. For them, these raw materials represent the yeast that makes their superprofits rise.

Contemporary industrial spies are often called "industrial termites," "the new parasites," "industrial pirates," etc. It must be said that this is done with complete justification because, regardless of how effective industrial espionage might be, it is no substitute for the firm's or industry's own R & D. Today's industrial espionage is inclined to feed parasitically primarily on research projects.

The forms and methods of industrial espionage are so numerous that it would be impossible to even list them. Despite this diversity, the actions of spies are criminal methods of collecting secret information. Spies use all methods--from the primitive theft of blueprints to laser observations of the object of interest. The following fact provides some idea of the inexhaustible store of tricks at the disposal of the hunters for other people's secrets. In the guise of a team of typewriter repairmen, the agents of a firm visit a rival company in the middle of the work day and perform "preventive maintenance" on the typewriter of a secretary, including the replacement of a ribbon on which top secret information has just been typed.¹⁰

The arsenal of modern industrial espionage is quite diverse and even includes a trick as old as the hills--the promise to marry a pretty young lady if she helps her "poor sweetheart." The romantic bait is most frequently taken by models, operators of duplicating equipment, and stenographers--that is, those who have access to the secrets of industrial firms but have no special interest in the financial success of the firms. Pretty and charming women are of immutable value to industrial spies.

In addition to using such methods as theft, burglary, bribery, and blackmail, which have always been known to agents, today's industrial spies make use of the latest scientific and technical discoveries. In the age of technological revolution the use of all types of microelectronic devices is a favorite method.

Whereas the agents of Pinkerton's day had to watch people from the street, lie in wait for their quarry in doorways, and peek through keyholes, today's Pinkertons use mini-microphones, mini-cameras, and microtelevision cameras for these purposes, surreptitiously installing them in offices and conference rooms where technical or commercial secrets are discussed.

Modern technology allows for the installation of electronic listening devices in buildings quite far removed from the object of surveillance and for the taping of any conversation. Telephone conversations can be overheard without attaching any electronic devices to the phone or the wire. An ordinary telephone can be turned into a microphone capable of picking up any conversation, even when the receiver is down. A voice stress analyzer, something like a lie detector which can be used to analyze phone conversations, is one of the latest innovations.

Special technology now allows for the interception of any information transmitted orally, over the telephone, telegraph, or computer. Even the windows of a conference room can serve as microphones, because special devices can reproduce the gist of the conversation on the basis of vibrations in the glass.

The use of electronic equipment allows corporations to know what competitors are doing, in their own country and abroad.¹¹ In itself, the organization of the TNC and its branches on all continents and in all parts of the world establishes favorable conditions for economic and industrial espionage. Transnational monopolies are taking advantage of this to the maximum.

In the United States, just as in all other developed capitalist countries, there are dynamic firms specializing in the production of microelectronic equipment for industrial espionage. They have been quite successful both financially and in terms of the technical performance of their products. These can be acquired as easily as a sandwich, an aspirin, or a canned drink. According to the president of one firm in the state of Maryland, the company produces more than 300 electronic listening and viewing devices.¹² The main clients of these corporations are the special services of monopolies, the CIA, the FBI, military intelligence, and those who want to know what their employees are doing.¹³

Tape recorders concealed in ballpoint pens and cigarette lighters have already been developed and are being used extensively. They are passed out as souvenirs, and it would be rude to refuse them. The lighters and pens of firms are so attractive that even businessmen who are well aware of the laws of the industrial jungle cannot give up the pleasure of using them. And they work when they are needed, because they are voice-activated. The tape recorder shuts itself off silently when there is a lapse in the conversation. Retrieving the recorder from the pen or along with the pen is a matter of technique, which is accomplished with varying success.

Such innovations as a microphone-gun, which is highly sensitive and is capable of picking up only the sounds at which it is pointed, and a "dummy-telephone," which can work forever without arousing suspicion, are quite popular. What is more, this phone transmits conversations in the building even when the telephone is not being used.

Modern equipment is so sophisticated that the aspirin a businessman swallows for a headache can contain a microscopic instrument signalling not the state of his health, but what he says to others and what they say to him.

The microphone in the form of a tie-clip ceased to amaze people long ago, but a telephoto lens the size of a matchbox which photographs printed text at a distance of 100 meters is arousing a new wave of enthusiasm among professionals.

Listening and viewing technology has come so far that when a Senate committee began investigating cases of industrial espionage in the middle of the 1970's, it started to give the potential victims advice on how to maintain confidentiality and protect their secrets because it saw no other way of combating the espionage. In particular, its final report said that businessmen should check the floral arrangements sent to their wives for cameras and transmitters. They should also make sure that the nail on which the portrait of the firm's founder is hanging is not a microphone, and that a secretary's stylish earrings are not transmitters.

Modern computers are of special interest to industrial spies. The memory of a computer can contain such valuable information that competitors will pay any price for the contents. The problem of computer "break-ins" and information theft is already being investigated by the U.S. Congress. The law provides for several severe penalties: a fine of up to 50,000 dollars or a fine equivalent to twice the value of the stolen information, a prison term of up to 5 years, or both.¹⁴

In addition to using their own agents, TNC's often enlist the services of firms specializing in espionage. The United States is the location of the headquarters of the largest industrial monopolies and the largest private industrial espionage firms. One of these organizations, the George Wokenhat Corporation, has a staff of around 20,000 and affiliates in England, France, Italy, and the Latin American countries. It has 22 branches just in the United States, and its steady clients include 3,000 American monopolies.

All transnational corporations officially repudiate industrial espionage and even condemn it. But they all admit to industrial counterespionage. No one has been able to say why industrial counterespionage is necessary if no one engages in espionage. Just as industrial espionage, counterespionage is practiced by the monopolies themselves and by specialized firms performing various services for a fee.¹⁵

Professional investigators and highly qualified experts study all publicly available periodical and specialized literature and use the so-called mosaic method to compile reports reflecting a more or less realistic picture of the situation in question.

The mosaic method essentially consists in the use of fragments of simple and accessible information to compile a general overview. According to Western specialists in industrial espionage, up to 95 percent of all information is derived precisely from publicly accessible sources--that is, by legal means. In the first place, this figure is an overstatement for industrial espionage just as for politico-military espionage. In the second place, even if this were true, the key secrets represent the other 5 percent. Speaking metaphorically, whereas clean espionage allows the "raiders" to learn the location and contents of the safe, the remaining "smidgin" makes it possible to learn the top secret code with which they can gain access to carefully guarded secrets.

In view of the fact that the industrial secrets of TNC's often acquire governmental importance and are used for military purposes, and in view of the fact that industrial espionage is being practiced on a colossal scale, in 1985 the U.S. administration requested the National Security Agency to join the FBI and CIA in taking more active measures to protect the secret information of firms.¹⁶

FOOTNOTES

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CHRONICLE OF SOVIET-AMERICAN RELATIONS (SEPTEMBER-NOVEMBER 1986)

Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 1, Jan 87
(signed to press 17 Dec 86) pp 124-127

[Text] September

3 -- Secretary A.F. Dobrynin of the CPSU Central Committee received A. Hammer, a prominent member of the U.S. business community, at his request. They discussed the present state of Soviet-American relations.

A tear-gas bomb was set off in the Metropolitan Opera House in New York's Lincoln Center during a performance by a folk dance company from the USSR (directed by Folk Artist of the USSR I. Moiseyev). The bombing was organized by the Jewish Defense League, a Zionist organization. Around 30 members of the audience were severely affected by the poison.

A Soviet-American discussion of the Afghanistan situation by experts was held in Moscow.

4-5 -- In accordance with the agreement concluded by General Secretary of the CPSU Central Committee M.S. Gorbachev and President of the United States R. Reagan, USSR and U.S. delegations conducted a second round of talks on the prevention of the proliferation of chemical weapons in Bern.

4-18 -- The second round of the Soviet-American talks on the cessation of nuclear tests was held in Geneva.

4 -- According to American Peace Test, an American peace organization, an experimental nuclear explosion codenamed Galveston was set off on the test site in Nevada.

5-6 -- A second round of Soviet-American consultations on nuclear and space weapons by experts was held in Washington. The discussion was part of the preparations for Soviet Foreign Minister E.A. Shevardnadze's meeting with U.S. Secretary of State G. Shultz.

6 -- The Pentagon conducted a secret experiment in conjunction with NASA to test devices for the destruction of missiles and satellites.

8 -- In response to the questions of the editor-in-chief of RUDE PRAVO, M.S. Gorbachev said that the Soviet side is in favor of the kind of Soviet-American summit meeting that would be marked by perceptible advances toward the resolution of at least one or two significant issues of international security.

11 -- A nuclear test was conducted in Nevada. The U.S. Department of Energy reported that the force of the blast was under 20 kilotons.

12 -- American journalist N. Danilooff, who was apprehended in Moscow on 30 August in the commission of an act of espionage, was released from confinement and was turned over to representatives from the American embassy in Moscow in the custody of a temporary U.S. charge d'affaires in the USSR. The American side simultaneously released UN staffer G.F. Zakharov, arrested by the American authorities on 22 August, in the custody of the Soviet embassy in the United States.

15-19 -- Representatives of the USSR and U.S. public met in Yurmala (Latvian SSR).

18 -- Permanent Soviet Representative to the United Nations A.M. Belonogov held a press conference in New York in connection with the U.S. Government's demand for the reduction of the staff of the USSR mission to the United Nations by 25 members before 1 October. Criticizing the flagrant authoritarian behavior of the United States, he cited a remark by UN Secretary General J. Perez de Cuellar of 17 September, describing this action as unlawful and contrary to the United States' UN commitments.

The sixth round of Soviet-American talks on nuclear and space weapons began with a plenary meeting in Geneva.

19 -- E.A. Shevardnadze had a meeting with R. Reagan in Washington and delivered a personal message to the President from M.S. Gorbachev. Talks between E.A. Shevardnadze and G. Shultz began the same day.

22 -- The first stage of the Conference on Confidence-Building Measures and on Security and Disarmament in Europe culminated in the adoption of a final document in Stockholm. Representatives from 33 European countries, the United States, and Canada signed agreements envisaging the reinforcement of the commitments of states to refrain from the use of force and to take additional measures to strengthen confidence and security in the military sphere.

E.A. Shevardnadze received U.S. Senator E. Kennedy, prominent public spokesman and politician.

22-24 -- Members of the Soviet and American UN associations met in Moscow.

23 -- Addressing the plenary meeting of the 41st session of the UN General Assembly, E.A. Shevardnadze stressed that the Soviet side does not regard its relations with the United States as hopeless.

Meetings of the following groups were held as part of the Soviet-American talks on nuclear and space weapons:

23 -- The group on space weapons;

25 -- The group on intermediate-range nuclear weapons.

29 -- By mutual consent, Soviet staffer of the UN Secretariat G.F. Zakharov was released and returned to his homeland; American correspondent N. Daniloff was allowed to return to the United States.

30 -- It was announced that by the terms of an agreement, General Secretary of the CPSU Central Committee M.S. Gorbachev and U.S. President R. Reagan would meet in Reykjavik (Iceland) on 11-12 October 1986 to make arrangements for M.S. Gorbachev's trip to the United States, which was agreed upon by the sides in Geneva in November 1985.

A nuclear explosion with a force of from 20 to 150 kilotons was set off in Nevada.

The Pentagon tested an antisatellite weapon of the ASAT system. An interceptor missile was launched into space from an F-15 plane.

October

Meetings of the following groups were held as part of the Soviet-American talks on nuclear and space weapons:

1, 8, 15, 22, 23, 29 -- The group on strategic weapons;

2, 9, 16, 30 -- The group on intermediate-range nuclear weapons;

7, 15, 21, 28 -- The group on space weapons.

1 -- A session of the Soviet-American Standing Consultative Commission, established to aid in the implementation of the goals and provisions of the USSR-U.S. agreements on the limitation of strategic arms and on measures to reduce the danger of nuclear war, began in Geneva.

10 -- Chairman of the Presidium of the USSR Supreme Soviet A.A. Gromyko received American biochemist and oncologist A. Lokshin in the Kremlin. He and his family have been granted political asylum in the USSR.

11-12 -- General Secretary of the CPSU Central Committee M.S. Gorbachev and U.S. President R. Reagan met in Reykjavik (Iceland). Fundamental aspects of nuclear disarmament and ways of safeguarding international security were discussed.

12 -- M.S. Gorbachev held a press conference in the capital of Iceland and expressed his views on the results of the meeting with President Reagan.

14 -- M.S. Gorbachev discussed the results of the meeting in Reykjavik on Soviet television. He said that the USSR had made major proposals which would make the elimination of nuclear weapons in the next 10 years possible.

The main obstacle in the negotiation process was the U.S. refusal to assume a mutual commitment with the USSR not to exercise the right to exceed the bounds of the ABM treaty for at least these 10 years.

17 -- A festival of Soviet art films, "The Cinematographer in the Soviet Republics," began in Washington. Soviet film festivals will be held in 20 U.S. cities. An exhibit of works from the collections of the Tretyakov Gallery and the Russian Museum in Leningrad, "Russia. The Land. The People. Russian Painting from 1850 to 1910," opened in the Renwick Gallery (in Washington). The exhibit is being held in line with a USSR-U.S. agreement on contacts and exchanges in science, education, and culture, signed in Geneva on 21 November 1985.

An underground nuclear test with a force of up to 150 kilotons was conducted in Nevada. The U.S. Department of Energy reported that the number of tests will rise constantly in the next 5 years due to the need for SDI-related tests and the development of new warheads and bombs.

18 -- A delegation from the U.S. Young Astronauts Council visited Star Village, where the young Americans toured the cosmonaut training center.

19 -- For unlawful behavior within the territory of the USSR, five staffers from the U.S. Embassy and U.S. Consulate General in Leningrad were declared persona non grata and were asked to leave the USSR.

20 -- E.A. Shevardnadze received U.S. Ambassador A. Hartman at his request.

21 -- The U.S. State Department officially announced the reduction of the USSR Embassy staff in Washington and the USSR Consulate General staff in San Francisco by 50 members. Besides this, another five Soviet diplomats were declared persona non grata. The Soviet diplomats have to leave the United States before 1 November 1986.

22 -- M.S. Gorbachev made another appearance on Soviet television to discuss the Reykjavik meeting, stressing that the far-reaching and interrelated proposals submitted to the President of the United States were a package and were based on our program for the elimination of nuclear weapons by 2000, announced on 15 January 1986. As a result of a difficult struggle, M.S. Gorbachev said, an agreement was reached that strategic offensive arms can and should be completely eliminated by 1996. An agreement was also reached on the complete elimination of American and Soviet intermediate-range missiles in Europe and on their radical reduction in Asia. But the SDI stands in the way of delivery from nuclear weapons. The American side subverted the agreements that seemed so close at hand. M.S. Gorbachev announced that the USSR was not withdrawing its proposals.

The Soviet Government's reaction to the provocative U.S. treatment of Soviet diplomats in Washington and San Francisco was reported in Moscow. Another five staffers of the U.S. Embassy in Moscow and U.S. Consulate General in Leningrad were declared persona non grata. They must leave the Soviet Union before 1 November 1986. The personnel of the U.S. embassy and consulate

general in the USSR must never exceed the number of personnel of the USSR Embassy in Washington and the USSR Consulate General in San Francisco. The U.S. Embassy in Moscow and the U.S. Consulate General in Leningrad will be deprived of all staffers hired locally--around 260 people.

November

5 -- E.A. Shevardnadze, who had arrived in Vienna to attend the meeting of the states party to the Conference on Security and Cooperation in Europe, had a meeting with U.S. Secretary of State G. Shultz.

Meetings of the following groups were held in Geneva as part of the Soviet-American talks on nuclear and space weapons:

4, 11 -- The group on space weapons;

5, 11 -- The group on strategic weapons;

6, 12 -- The group on intermediate-range nuclear weapons.

6 -- E.A. Shevardnadze and G. Shultz had a second meeting in Vienna. They discussed matters of mutual interest.

7 -- At the suggestion of the USSR, a plenary meeting of the USSR and U.S. delegations at the talks on nuclear and space weapons was held in Geneva. At this time the Soviet side submitted proposals covering the entire range of nuclear and space weapons in line with the results of the Soviet-American meeting in Reykjavik.

10 -- Speaking at a press conference in Moscow on the results of the talks with G. Shultz, E.A. Shevardnadze said that a document had been submitted to the American side for its consideration in Vienna, repeating everything the leaders of the two countries had agreed upon in Reykjavik. But the United States has resolved to replace the Reykjavik package with a Vienna package, from which the fundamental agreement has been removed, while the others have been diluted by numerous stipulations, conditions, and onesided interpretations.

The book "Vital Issues of Our Day. Disarmament and Social Progress," containing the Political Report of the CPSU Central Committee to the 27th Party Congress, the text of the new edition of the CPSU Program, and other documents, was published in the United States by the International Publishers firm.

11 -- Meetings of a working group on regional conflicts began in Moscow within the framework of the Dartmouth Conference of Representatives of the Soviet and American Public.

12 -- In accordance with an agreement between the U.S. Natural Resource Defense Council and the USSR Academy of Sciences, a group of Soviet scientists arrived in the United States. They were not allowed to visit the proposed sites of special equipment in Nevada and California. As a result, the

specialists from the USSR were able only to meet with their colleagues, study geological maps of these regions, and inspect American seismic equipment.

The sixth round of the Soviet-American talks on nuclear and space weapons came to an end in Geneva. The head of the Soviet delegation, V.P. Karpov, declared that this round had demonstrated the American side's intention to cancel what had been accomplished in Reykjavik.

13-25 -- The third round of USSR-U.S. talks on the cessation of nuclear tests was held in Geneva. The head of the Soviet delegation, Chairman A.M. Petrosyants of the State Committee of the USSR for the Utilization of Atomic Energy, announced that the American side had departed from the agreement to begin the full-scale negotiation of a test ban.

13 -- The latest session of the Soviet-American Standing Consultative Commission came to an end in Geneva.

A TASS statement, condemning the U.S. annexation of Micronesia, a UN trust territory, was published. It stressed that only the Security Council can make decisions on the termination of UN trust agreements.

14 -- Another nuclear test was conducted in Nevada. According to a test site spokesman, the force of the blast was under 150 kilotons.

17 -- A statement by the Soviet Government, condemning the U.S. administration's overt interference in Nicaraguan affairs, was published. "The U.S. administration is trying to justify its interventionist behavior in Nicaragua by making references to the 'increase of Soviet military presence' in this country. The Soviet Government vehemently denies these completely groundless allegations. It declares that the USSR has not established and will not establish any kind of military bases in Nicaragua," the statement said.

18 -- The fourth round of Soviet-American talks on all aspects of the conclusion of an effective and verifiable international convention on a total and complete ban on chemical weapons, which began on 28 October, came to an end in New York. The USSR delegation set forth new initiatives at the talks on guarantees of the non-production of chemical weapons in commercial (or civilian) industry and on-site inspections on request.

19 -- The USSR Supreme Soviet addressed all parliaments and peoples with an appeal for resolute steps toward the construction of a non-nuclear world and the creation of equal and reliable security for all states.

26 -- A press conference on the SDI, the ABM treaty, and strategic offensive arms was held in the press center of the USSR MID. It was attended by V.P. Karpov, chief of the Arms Limitation and Disarmament Administration of the USSR MID; Col Gen N.F. Chervov, chief of an administration of the General Staff of the USSR Armed Forces; Academician B.V. Raushenbakh; and B.D. Pyadyshev, first deputy chief of the Information Administration of the USSR MID. It was stressed that the USSR opposed the addition of any changes or amendments to the ABM treaty and refuted Washington's assertions that the

SDI will do more than the peaceful use of space to promote scientific and technical progress.

27 -- The signing of the Delhi Declaration on the Principles of a Nuclear-Free and Non-Violent World took place. The Soviet and Indian leaders called for agreement on the complete destruction of nuclear arsenals before the end of this century, the prevention of the emplacement of any weapon in space, a total ban on nuclear tests, a ban on new weapons of mass destruction, a ban on chemical weapons and the destruction of chemical stockpiles, and a lower level of conventional arms and armed forces.

29 -- A Pentagon spokesman confirmed the report that a 131st B-52 bomber equipped with cruise missiles had been added to U.S. strategic forces. By doing this, the United States violated the Soviet-American SALT II treaty.

A TASS statement, condemning the U.S. decision to deploy Lance tactical missiles in South Korea, was published. "In essence," it said, "the United States is introducing new nuclear-missile parameters into the military situation in the Far East."

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